

Public Utilities

FORTNIGHTLY

Volume XLIX No. 1



January 3, 1952

THE WASHINGTON OUTLOOK FOR PUBLIC UTILITIES—1952

By Francis X. Welch

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What Will "Recapture" Mean for FPC Hydro Licensees? Part I.

By Samuel H. Crosby

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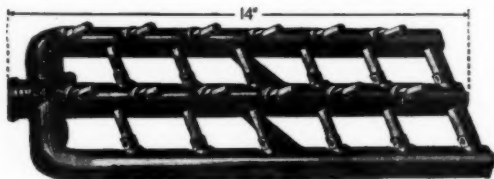
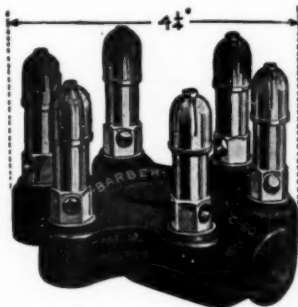
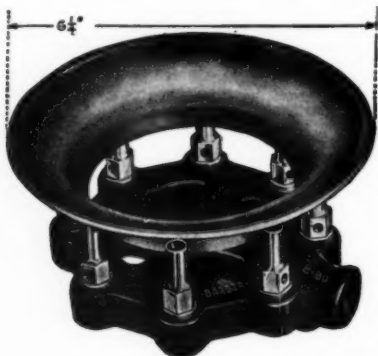
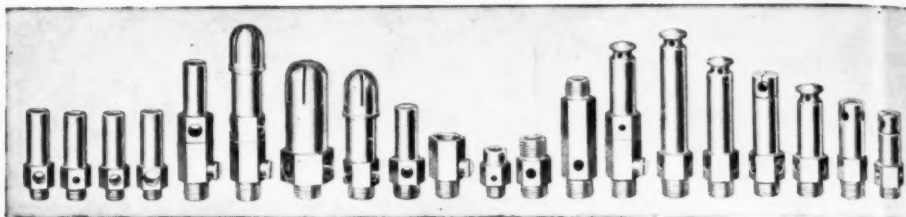
Private Enterprise Builds a Hydro Dam in the Northwest

By Roscoe Ames

« »

So You Think You Could Be Boss!

By James H. Collins



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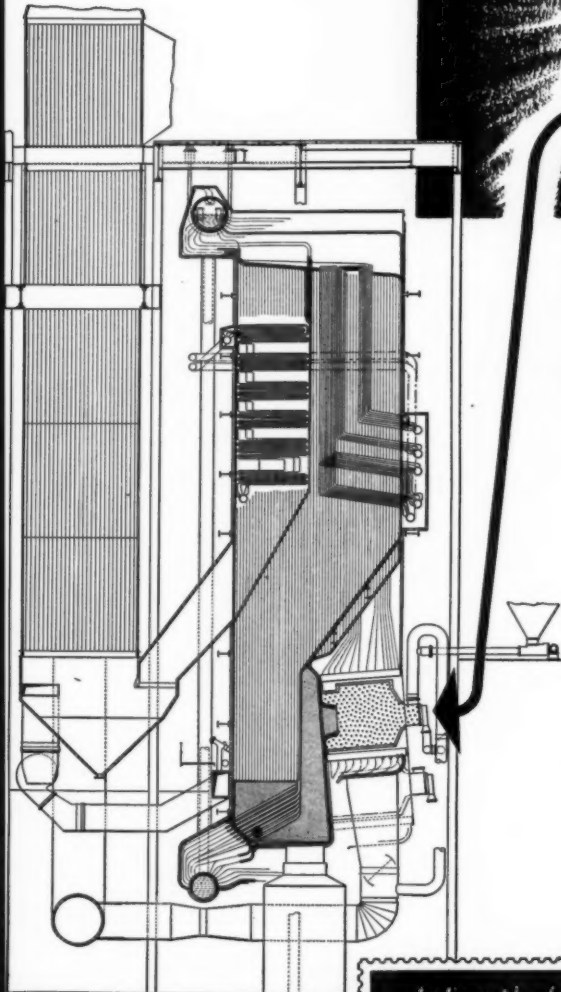
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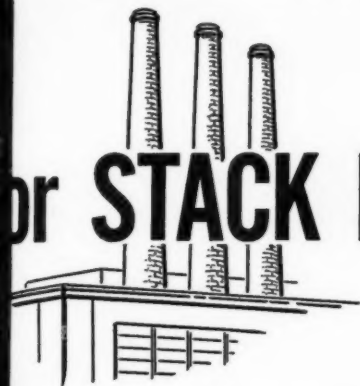
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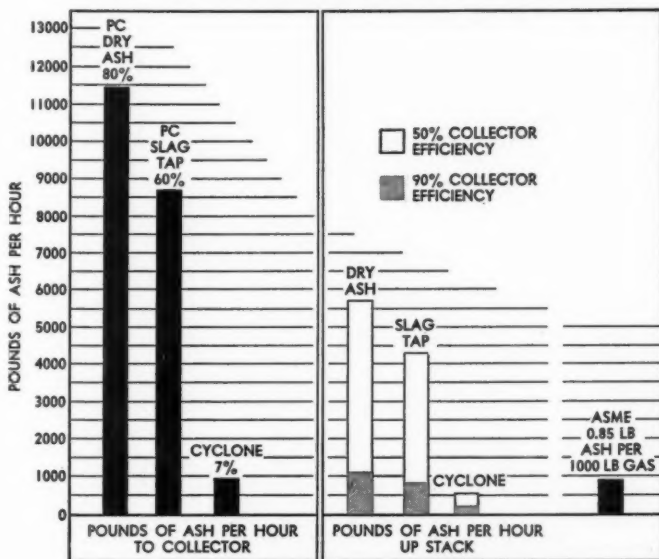
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Pages with the Editors

A NEW YORK editor recently made a cynical observation about the increase in heavy drinking during the holiday season. He said that the things people have to look forward to these days, when they wish each other "Happy New Year," are enough to drive anybody to drink.

We perceived the full flavor of that comment when we looked over the advance proofs of the annual Washington forecast article by our own managing editor, FRANCIS X. WELCH. If any utility man can read MR. WELCH's ten predictions through, from beginning to end, and then conscientiously wish a colleague a Happy New Year, he is an optimist, indeed.

OF course, the tailor does not make the cloth any more than an editor makes the news he has to publish, so we cannot quarrel with any of MR. WELCH's predictions, *per se*, until they are proved wrong. And it must be said for our "house prophet" that he had a pretty good batting average last year, calling $9\frac{1}{2}$ out of 10 shots. All we can say is that we hope he isn't so accurate this

year, or it won't be such a happy one for a lot of people.

OF course, the double prospect of a knockdown and drag-out presidential campaign, during a year when we may even have the outbreak of World War III, is not an outlook which could possibly leave any sensible person in a cheerful mood. But it may be that, out of the crucible of this election year, we may be able to forge a more enduring framework for our national security. Granted that we are pretty much doomed to another year of inflation, deficit spending, and, at best, cold war with its burden of mobilization. (The worse prospect, we won't even think about.) Yet, if we can put our national house in order in the election of 1952, the right decision in 1956 may be made that much easier.

ONE of the Washington weekly letters of national reputation recently said on this point, "either the nation goes outright Socialist in 1956, or it must turn sharply to the right." We cannot have our economic cake and eat it, too. But we may be able to postpone waking up to the fact for another four years.

* * * *

UNDER the heading of Looking into the Future, we have another article in this issue. It is the discussion of what happens when Federal Power Commission hydroelectric licenses mature to the point where the plant facilities are subject to "recapture" by the government. In the first instalment of this analysis of hydroelectric licensing regulation from the standpoint of "recapture," the author describes the historical background and early policies leading to the enactment of the Federal Water Power Act, now part of the Public Utility Act of 1935.

SAMUEL H. CROSBY, who has written this 2-part series, on what recapture will mean for FPC hydro licensees, is well



FRANCIS X. WELCH

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SAMUEL H. CROSBY

qualified to discuss his subject. This is because he was for many years an examiner for the FPC, and is reported to know the Federal Power Act almost to the point of reciting it verbatim. He is now an examiner for various government control agencies. He is a graduate (AB, Phi Beta Kappa) of Grinnell College (Iowa). He has also practiced law privately and was, until recently, counsel and an associate of the late E. Holley Poe, who engineered the purchase of the government "Inch" pipelines for conversion to natural gas transmission.

* * * *

THE article beginning on page 21 is a description of privately owned utility company development in a region where Federal projects predominate. Shortage of power in this area of Federal development has undoubtedly resulted in some measure from discouragement of private investment. This story tells how one company is standing up and expanding in the face of such repressive influence. Written by a professional writer, ROSCOE AMES, the project described is the Cabinet Gorge program of the Washington Water Power Company, which operates a number of other hydro projects.

* * * *

THE article "So You Think You Could Be Boss!" which begins on page 30, is the product of a California writer and editor, JAMES H. COLLINS,

JAN. 3, 1952

whose articles frequently appear in these pages. It is a timely subject, indeed. Can the rank-and-file employee of a utility seriously aspire these days to be president of the company? If so, how does he go about it? A check on the presidencies of numerous important utility companies, including the Bell system where intramural promotion has become an established policy, shows that it can be done and it will be done.

PERHAPS the question the employee should seriously ask himself is whether he would like such a job after he gets it. It's no bed of roses. There is no such thing as quitting time, really, for the average big-time utility president. He may try to leave his problems in his office, but quite often they bob up alongside of the sheep he has to count before getting to sleep.

Now that the holiday shopping is out of the way, the average householder, just like the employer, is probably wondering wistfully what is left in the bank for the tax collector—who calls so terribly soon in the wake of Santa Claus. One casualty of the recent Christmas season seems to be the old-fashioned Christmas bonus, which some business firms used to give their employees. Thanks to a ruling by the National Labor Relations Board, an employer who gives a Christmas bonus as a matter of regular practice, now finds that it becomes a matter of bargaining.

WE have heard of a number of firms, hard-pressed by rising costs and declining or static revenues, dispensing with this pleasant relic of simpler times. And so, despite a sentimental dissent by a board member to the effect that a Christmas present should not be made an object of collective bargaining, it looks as if employers in the future will either have to cease the practice, or have it charged against them as a wage offering.

THE next number of this magazine will be out January 17th.



The Editors

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IMPACT OF EMERGENCY CONTROLS ON REGULATION

Perhaps it is not generally understood, even by those professionally engaged in the conventional regulation of public utilities, that emergency controls have brought about some noteworthy changes. Some may be just for the "duration." Some may stay longer. But, in any event, different policies with a different series of rules are now being superimposed from Washington upon the utilities and the commissions which ordinarily regulate them. Restrictions on service obligations and tax amortization reserves are just two of a number of factors analyzed by Frederick Lavey, Washington attorney, in this timely and revealing article.

RATED VERSUS ACTUAL CAPACITY FOR POWER PRODUCTION

Is the electric industry handicapped, somewhat, by current usage of two terms, "capability" and "capacity," giving rise to confusion and misunderstanding? Hendrik A. Diamant, public utility analyst for the Wall Street firm of Baker, Weeks & Harden, has analyzed this situation. The term "capacity," as applied to generating equipment, has a long history. The origin of "capability" is obscure. But the implied distinction between the two is most uncertain. The author proposes to clear up the difficulty with specific recommendations of interest to regulatory as well as operating officials.

WHAT WILL "RECAPTURE" MEAN FOR FPC HYDRO LICENSEES? PART II.

In the second part of this analysis of hydroelectric licensing from the standpoint of "recapture," the author describes certain future possibilities which must be considered by certain Federal hydro license holders in the not too distant future. Samuel H. Crosby, former FPC examiner and an authority on the Federal Power Act, tells us some little-known but important facts about what happens when hydro licenses mature for "recapture."

UTILITY OCCUPATIONAL SUPERSTITIONS

Did you ever hear about the actor who would fly into a rage when somebody put a hat on his bed? Or the store merchant who would despair if he lost the first sale on Monday morning, to start the week's business? Every line of business has its pet superstitions, even the utilities. Some are mere sentimental poses, perhaps, but this collection from the utility field by Henry F. Unger, professional writer of Washington, D. C., will be found full of interesting as well as entertaining industry lore.



Also . . . Special financial news, digests, and interpretations of court and commission decisions, general news happenings, reviews, Washington gossip, and other features of interest to public utility regulators, companies, executives, financial experts, employees, investors, and others.



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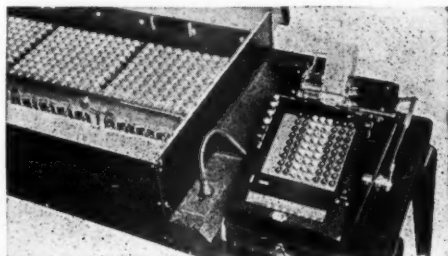
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Transportation Association
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President, Harding College.

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LESLIE GOULD
*Financial editor, New York
Journal American.*

"There would be nothing to worry about, if it weren't for the kind of bureaucrats infesting this administration. They can't be trusted."

LEWIS HANEY
*Professor of economics,
New York University.*

"The trend is toward Socialism, which means everybody trying to outvote everybody else with the idea of getting something for nothing."

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*Director of information,
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*Chairman, executive committee,
Chamber of Commerce of the
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"Good will . . . must be built on a solid foundation. It does not consist of a few carefully planned acts, but rather depends on a mode of living and a sincerity of purposes."

HENRY KNOX SHERRILL
*Presiding Bishop, Protestant
Episcopal Church in America.*

"Freedom, because it is freedom, always presents immediate dangers, but to try to obviate these by regimentation or by unwise repression is to lose our cause by our own action."

M. H. FRANK
*Executive vice president,
Wisconsin Power & Light
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Columnist.

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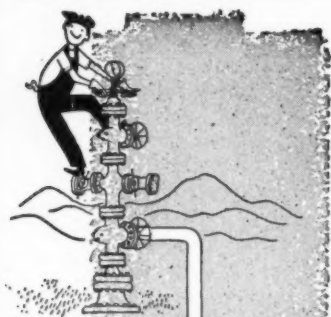
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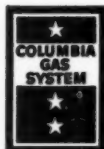
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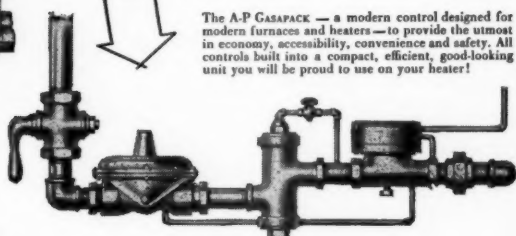


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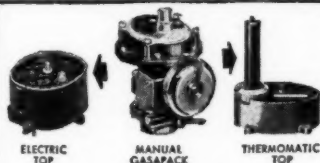


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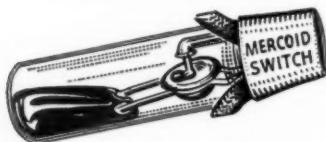
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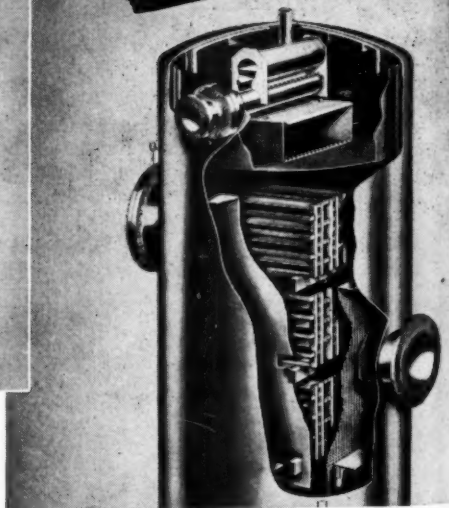
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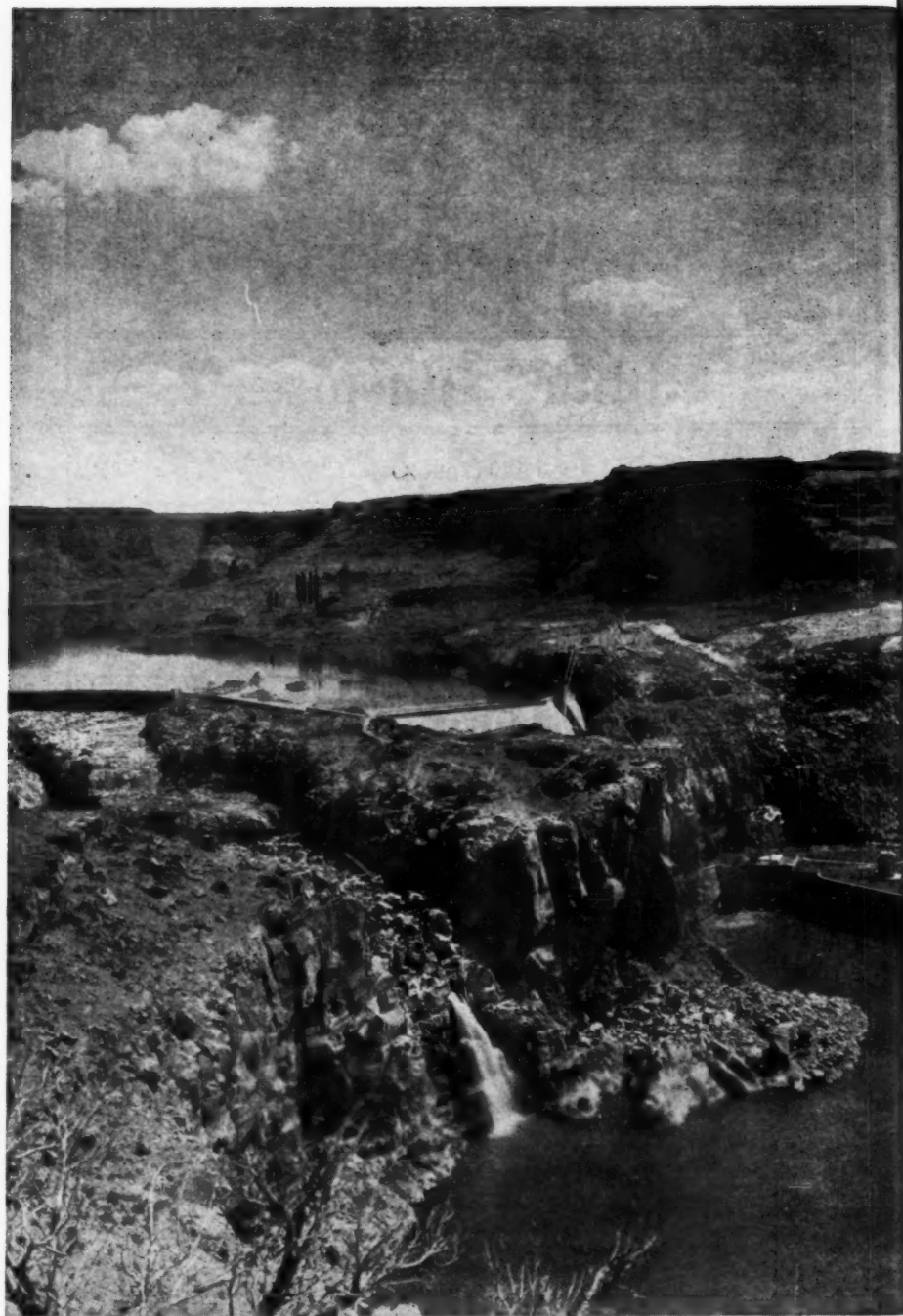
DISTRICT OFFICES IN PRINCIPAL CITIES



Utilities Almanack

JANUARY

3	T ^a	† EEI Industrial Relations Com., Southeastern Electric Exchange Personnel Sec., and Southwest Personnel Group will hold meeting, Jan. 17, 18, 1952. ③
4	F	† Canadian Electrical Association, Eastern Zone, Sales Division, will hold meeting, Montreal, Quebec, Canada, Jan. 17, 18, 1952.
5	S ^a	† Edison Electric Institute, Merchandising Committee, will hold meeting, Chicago, Ill., Jan. 17-24, 1952.
6	S	† National Association of Home Builders will hold annual convention and exposition, Chicago, Ill., Jan. 20-24, 1952.
7	M	† Edison Electric Institute, Accident Prevention Committee, begins meeting, New Orleans, La., 1952.
8	T ^u	† United States 82nd Congress, Second Session, begins, Washington, D. C., 1952.
9	W	† American Gas Association will hold home service workshop, Chicago, Ill., Jan. 21-23, 1952.
10	T ^a	† Kansas Contractors Association begins annual meeting, Kansas City, Mo., 1952.
11	F	† American Institute of Electrical Engineers will hold winter general meeting, New York, N. Y., Jan. 21-25, 1952. ②
12	S ^a	† Association of Railroad Advertising Managers will hold meeting, St. Louis, Mo., Jan. 25, 26, 1952.
13	S	† National Appliance and Radio Dealers Association begins annual convention, Chicago, Ill., 1952.
14	M	† Canadian Electrical Association, Engineering and Operating Division, Eastern Zone, begins meeting, Montreal, Quebec, Canada, 1952.
15	T ^u	† American Water Works Association, New York Section, holds winter luncheon meeting, New York, N. Y., 1952.
16	W	† Edison Electric Institute, Dealer Co-ordination Committee, begins meeting, Chicago, Ill., 1952.



Private Utility Hydro on the Snake River
Twin Falls development of the Idaho Power Company.

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Public Utilities

FORTNIGHTLY

VOL. XLIX, No. 1



JANUARY 3, 1952

The Washington Outlook for Public Utilities—1952

Analysis of the possible consequences of new developments in Congress and Federal agencies respecting various utility industries during the New Year.

By FRANCIS X. WELCH*

IT was that master of the paradox, Oscar Wilde, who once said, "If one tells the truth, one is sure sooner or later to be found out." Making uncomfortable and perhaps unpopular forecasts, about things to come in Washington, probably falls in this category of unpleasant truths which eventually prove themselves all too correct. For some years now the Washington prophets, self-appointed and otherwise, had to be Jeremiahs if they were going to do an honest job

of gazing into their crystal balls. By the same token, they have sometimes been held up to ridicule by those optimistic folks who like to recall how often so-and-so predicted that the country was going to ruin in a hand basket, and it never happened.

Such criticism from the Doubting Thomas fraternity is a sort of occupational risk, which the forecaster has to accept along with the job. That, plus the fact that nobody thanks the gloomy prophet even when he is right, would seem to make it an unattractive calling at best. But as a prisoner at the

*Managing editor, PUBLIC UTILITIES FORTNIGHTLY, Washington, D. C.

PUBLIC UTILITIES FORTNIGHTLY

bar once said, "*somebody* has to be the defendant"—so here goes.

THE ten predictions this writer now attempts in the field of public utility relations with government perhaps will not make happy reading in some quarters, and may draw a skeptical reaction in others. But they are, nevertheless, as true as this prognosticator can make them on the basis of known facts and trends. These are all now apparent to anyone who wants to bother with going through a tedious mass of commonplace public documents, such as committee reports, budgets, briefs, and other reading matter hardly recommended for a summer cruise.

After all, it would be violating no trade secret to say that Washington prophecy is largely based upon trends which are already in motion at the time. It is simply the observation of the coming event casting its shadow before it.

Two major imponderables overshadow the year 1952—the possibility of all-out war and the presidential election campaign. Both of these factors are bound to color about every important thing that is said or done in Washington during the coming year. It obviously would be beyond the scope of this observer to attempt any forecast of either of these events, but it is necessary to proceed on the basis (1) that large-scale war will be staved off for another year and (2) that a red-hot, or to put it more plainly, dirty, campaign is going to keep the atmosphere in the nation's capital pretty well disturbed for the best part of the year.

As to the first of these, the alternative possibility—war with Russia with

all the disastrous atomic consequences—would leave such ruin in its wake that all conventional predictions about utility legislation, regulation, or operation would be pathetically immaterial anyhow.

As to the second factor—political disturbance during an election year—we must face up to the fact that our Congressmen and others who are required to submit their futures to the verdict at the polls are likely to be less forthright, less decisive, more inclined to put things off than during other years.

This is another way of saying that the regular session of Congress may prove more industrious in promoting issues than in settling them, one way or the other. It will not pass any more major controversial legislation than is absolutely necessary to keep the government running and uphold the hands of our foreign policy makers.

GETTING down to cases, of public utility interest, either pending or likely to be introduced in Congress, this do-nothing-to-make-anybody-sore atmosphere is likely to have the following ten results:

1. Controls. They are here to stay awhile. Don't let any hopeful or wishful people tell you otherwise. It may be perfectly true that our present price and wage controls amount to a cruel hoax. It certainly is true that a number of things are now selling below ceiling prices, while labor unions purposefully act as if wage controls did not exist. It is easy to make a case for the proposition that if the OPS and WSB were to disappear from Washington overnight, our economy would

RESULTS OF 1951 PROPHECY

Roughly, nine and a half of the following ten predictions by Mr. Welch one year ago occurred as forecast.

Forecast

1. *Taxes.* Additional corporate and private income taxes were anticipated—with no change in special provisions for utility excess profits tax, but with an expansion of excise taxes to new items.

2. *Control agency shake-up.* Dissolution of the multihead emergency defense organization and a centralization under a single all-powerful boss. A revival of an old Office of War Utilities was suggested.

3. *Emergency control progress.* Priority on scarce materials, and even service rationing, was predicted, along lines established during World War II days. A bigger part for state commissions was forecast.

4. *Utility rates.* Continuation of an upward trend was predicted, with increasing resistance to repeated rate boosts towards the end of the year, and with transit companies even asking for special tax relief.

5. *Plant expansion.* It was suggested that defense requirements would "dictate largely the amount of plant expansion" to be permitted. Service shortage foreseen.

6. *Interior Department.* A double dose of trouble from a critical Congress and a firm FPC, protecting its own hydro jurisdiction, was foreseen.

7. *No new projects,* but plenty of effort in Congress for the St. Lawrence and valley authority schemes—a cold reception to the WRPC report.

8. *Gas legislation.* It was predicted that Congress would drop the Kerr Bill, although even more favorably disposed toward it, in view of other developments.

9. *Communication industry.* "Current controversy over FCC's colored television order will become temporarily academic in view of manufacturing restriction."

10. *REA slowdown.* Lower appropriations for both electric and telephone loans, with efforts to classify some as defense.

Result

RIGHT

In every detail—much to our sorrow, when the Ides of March arrive.

PARTIAL

Charles E. Wilson was made ODM boss early in the year, but so far nothing like a central special control agency for all utilities.

RIGHT

The utilities even have their own special NPA control orders. The state commissions are in the act, especially on rationing gas supply.

RIGHT

All these things have come to pass, as telephone and transit companies can well testify.

RIGHT

The "held order" list for telephones is now over a million.

RIGHT

Interior is still engaged on these two fronts.

RIGHT

Some failed by close vote in committees, but all did. The WRPC report "just layed there."

RIGHT

The FPC voluntarily ended the cause of this agitation.

RIGHT

It happened just that way.

RIGHT

So far REA has not been able to get into the mobilization act.

The Author's 1952 Predictions Will Be Found on Page 9

PUBLIC UTILITIES FORTNIGHTLY

feel no real difference because these agencies are not operating with any real effectiveness.

But it is not the sensible course which is always followed in Washington. Price and wage controls will remain as a protective coloration for a mobilization effort which must go forward under the international policy to which our present government is committed. Certainly the same is true with respect to material controls. So it is safe to forecast that the NPA, the OPS, and WSB and the other alphabetical creatures of the present "emergency" will all be doing business at the same old stands in Washington throughout the year 1952. Not a happy prospect. And if you think of a brighter one, don't bet any real money on it. But Congress in its wisdom will do nothing about this—except talk. There will be strong arguments, pro and con, about putting more teeth into this or that type of control. But the only real teeth will be those which are bared by labor leaders, or other very important people, when any such suggestion is made in Congress not to their liking.

2. Taxes. They will even be surer than death in 1952. But we can have the negative comfort of knowing that Congress will not boost them any more, despite a growing deficit. President Truman will ask; but he will not receive. This is perhaps small consolation for those who already feel as naked as plucked chickens. But such as it is, we can be certain that Senator Byrd's warning about the American people being pressed to the limit will be heeded—at least for the coming year.

Senator Byrd's southern colleague, Senator George, who heads the important Finance Committee of the upper chamber, already has given us his view on this. He predicts that his committee will not report out a new tax bill unless another major outbreak of war should occur.

Of course, when we speak of a "new tax bill," we necessarily mean a new *higher* tax bill. What other kind of a tax bill is there, these days?

3. Shortages. There will be a double dose of these for the utilities in 1952. Shortages of materials to build new plants and to operate existing plant properly. There will be shortages in service capacity as a corollary to the restrictions on plant expansion.

On this point, a repetition of last year's forecast must be ventured, for all types of utilities in some degree. It amounts to this: Mobilization and defense requirements will dictate largely the amount of plant expansion and service improvements which these utilities will be permitted to undertake.

This is another way that the NPA, or its opposite number among the Interior Department control agencies, will be the unseen but controlling director at every utility company board meeting, where the subject of building plant or extending service is discussed.

To be more specific, the shortage timetable of scarce metals indicates that midyear—about July 1st—will be the hot point of *material* famine. At that time, copper will begin to resemble gold. Steel and aluminum should become a little easier, thanks to some increasing plant capacity, but not soon



Control Agencies to Stay in Business

"Price and wage controls will remain as a protective coloration for a mobilization effort which must go forward under the international policy to which our present government is committed. Certainly the same is true with respect to material controls. So it is safe to forecast that the NPA, the OPS, and WSB and the other alphabetical creatures of the present 'emergency' will all be doing business at the same old stands in Washington throughout the year 1952."

enough to avoid recurring shortages in power supply, natural gas supply, and telephone service.

The main reason for spotty power shortages during the coming year will be the meager allocations of structural steel to the power industry. Schedule dates for new power plants will have to be postponed. One very important new plant serving a large middle western city, originally scheduled to go on the line around December 1, 1952, will not be producing until the following March. The pinch will be felt most acutely during the winter of 1952-53, as new defense manufacturing capacity swallows up available power supply in all areas of the country. The tightest single area will probably be the heavy manufacturing belt from the Great Lakes to the Gulf coast.

The pattern for taking care of local shortages of natural gas supply already has been laid out by the Petroleum Administration for Defense.

This order, which restricts the addition of new house-heating customers, will not be revoked or eased. If anything, we may expect PAD to work out new restrictions governing temporary cut-offs for interruptible or less essential heavy consumers.

In the telephone field the "held order" list will certainly be bigger and not better by the end of 1952. Copper wire deliveries, central station equipment, and plant buildings are all behind schedule, while subscriber demand for more and better service keeps slipping up. The telephone companies will have to keep running like the Red Queen, in *Alice in Wonderland*, to stay where they are during the New Year.

4. Rates. Of course they are going to continue upward in 1952, just like the price of everything else. But the trouble ahead for the utilities will lie in the hardening resistance from the ratepayers. No matter how well justi-

fied a utility rate increase may be, there is no way of making ratepayers actually like it. Even the most gifted public relations expert in the world could not fairly be expected to bring about such a result.

Up to now, the state commissions have been pretty good, on the whole, about recognizing the fairness of utility rate needs. Some of them have been pretty courageous, braving the storms of unpopular reaction and political reprisals. During the coming year, however, we can expect to see more of this kind of pressure being put on the state commissions, to make them turn down rate increases, or delay them, or whittle them down.

And speaking of delay, the problem of time lag between the filing for rate increase and the effectiveness of such an increase—if, as, and when granted—is getting to be as serious as the need for the rate increase on its own merits. Some of the gas companies found this out to their sorrow recently when the Federal Power Commission blandly told them there was no provision in the law for moving up the effective date of their rate increase petitions, notwithstanding the fact that a rate increase filed by their own supply pipeline company was some weeks ahead of them in point of timing.

WHAT makes this time lag problem so distressing to the utilities is that some of the main items of their own operating expenses are actually being increased *retroactively*. Congress recently passed a retroactive increase in corporate income *taxes*. And some of the labor union leaders have found a way to get retroactive *wage increases* from railroads and transit companies.

But so far nobody has been able to discover how to make a utility *rate increase* retroactive. The utility has no way of recouping the extra amount disbursed for these additional expenses, during the long waiting period between filing for a rate increase and actually getting one.

We may expect during the coming year to hear some pitiful outcries from utilities about this inequity. But the prediction is ventured that no remedy will be adopted—such as widespread acceptance of any program for making proposed rate increases immediately effective, under bond, pending adjudication on their merits. About the best countermeasure utilities can take, at this time, is to work diligently and continuously in preparing their customers for necessary rate increases. This means getting their case before the public early, often, and effectively. Only in this way will any degree of public acceptance be obtained. And even then, as said before, they won't like it.

5. *St. Lawrence.* Here is where your prophet goes out on a limb. After all these many years of lucky predictions that the St. Lawrence seaway would not be authorized by Congress, he feels this is the year something will be done about it. But it won't necessarily be congressional action. On the contrary, present indications are that the Dominion of Canada is not bluffing, in its bid to go it alone on building the seaway—letting Ontario make what terms it can with the state of New York on the incidental power development.

Now it may be that President Truman can use this "threat" of an all-



Predictions of Events for 1952

(Here is a summary of the things likely to occur in Washington of special concern to the public utility industry.)

1. **Controls are here to stay.** Even though present controls and wage controls continue along their present ineffectual course, the administration's commitments to do a mobilization program will require NPA, OPS, WSB, and the other control agencies to stay on the job. No changes in the Defense Act expected.
2. **No boost in taxes.** Chairman George of the Senate Finance Committee already has indicated that his group will not report out a new tax bill unless another war breaks out. But that won't stop President Truman from asking.
3. **Shortages.** Shortages of materials are going to get worse before they get better. The real bite will come around the middle of the year. As a result of restrictions on plant expansion, pipelines, etc., there will be spotty service shortages in all utility lines during the year.
4. **Rates are going up.** But the utilities are going to face increasing difficulty making the consumers swallow them. More pressure on the state commissions to delay or reject rate increases is foreseen. The delay factor will be almost as big a headache as getting a higher rate itself.
5. **St. Lawrence.** The prediction is made that some arrangement for constructing the St. Lawrence seaway will come during the year 1952. It may take the form of an all-Canadian venture or a joint international proposition as President Truman would like to have it.
6. **No other new public projects.** The valley authority bills will stay dead during the year and the Interior Department probably will be unsuccessful getting any of its new project proposals OK'd by Congress.
7. **FPC versus Interior.** FPC looks like the winner over Interior in the contest for paramount authority in hydroelectric licenses. It is predicted that the recent decision of the Fourth U. S. Circuit Court of Appeals in the Roanoke Rapids Case will be upheld by the U. S. Supreme Court or a review denied.
8. **No regulatory legislation.** Although the state commissions are pressing for amendments to the Natural Gas Act, the Federal Power Act, and perhaps to remove the "preference clause" from public power project legislation, Congress will be too preoccupied with politics to approve.
9. **Transit companies.** With transit companies reaching the end of their string, with fares approaching their economic ceiling while wage demands continue upward—something has to give. It is predicted that serious consideration will be given to tax relief to keep the transit wheels turning.
10. **Labor trouble.** Strikes and labor disputes are expected in a number of major industries and some strikes may enter the utility picture to some extent. Probable trouble areas are in the telephone and transit fields. But Taft-Hartley will remain unchanged.

PUBLIC UTILITIES FORTNIGHTLY

Canadian seaway to beat down the stubborn opposition from the Atlantic seaport Congressmen and railroad interests which have blocked previous Federal legislation for American participation. The chances seem good, however, that quite a few Congressmen would be just as well disposed to let Canada build the seaway if she wants to. After all it would be somewhat of a change to have one of our Allies spend some of their own money to pay for their own benefits instead of sending the bill to us. But President Truman will try every way he can to make Uncle Sam pick up the check.

Either way, this writer looks for some definite arrangement to develop the St. Lawrence seaway, being worked out during the year 1952. Whether the result will be all-Canadian or a joint international venture is a detail that cannot be seen clearly in the crystal ball.

6. Other public projects. Aside from St. Lawrence, no new major projects of the "valley authority" type will be approved by Congress during the coming year. The perennial Missouri valley and Columbia valley bills will get the usual publicity and blessing from the administration. But Congress is in no mood to spend that kind of money, even if the necessary materials and man power were available, which is not the case.

Other new projects, to be built by existing Federal agencies, will also have a bad time in Congress. Secretary of Interior Chapman will soon unveil his grandiose plan for transporting Columbia river water to California. It will get brickbats from both the Columbia basin and California.

Nor will it lessen the Californians' opposition to another Interior proposal, the Central Arizona project. That, too, will get nowhere next year.

And while Interior will go ahead with projects already authorized, we expect some close fights in Congress on such proposed new projects as the Hells Canyon dam and the steam plants which Representative Jackson (Democrat, Washington) wants to build to help out in the Bonneville area. Just guessing at this one, the forecast is that both will fail to get congressional approval, although strongly urged by President Truman.

7. FPC VERSUS Interior. The Roanoke Rapids Case will probably go to the Supreme Court in the year 1952. This was the case wherein the Federal Power Commission granted the Virginia Electric & Power Company a hydroelectric license over the protest of the Interior Department. The commission was finally sustained in a sweeping opinion by the Fourth U. S. Circuit Court of Appeals, and a rehearing was denied.

So what happens now? Probably what the Interior Department attorneys would like to have happen would be a slow stall on further Federal procedure, until after the presidential election once more returns to office an administration firmly committed to public power expansion. If that happened (recalling Truman's upset victory in 1948) the Roanoke Case could become almost a moot question. Congress would give Interior all the authority it needed to do its own development in Virginia and other areas—FPC licensees notwithstanding.

But that is looking at the situation

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entirely from Interior's point of view. Actually this writer expects that the FPC will be sustained and the Supreme Court may not even grant a review.

As the Roanoke Rapids Case goes, so goes the Kings River Case—involving a similar controversy in California. In other words, the FPC looks like the winner in this series of bouts.

8. *Regulatory legislation.* There are several bills in Congress, and there may be more during the year, to amend Federal regulatory laws. The state commissions, for example, want the Natural Gas Act amended so as to keep the FPC from taking such advantage of the East Ohio Gas decision of the U. S. Supreme Court that state commission jurisdiction will suffer. State commissions also have protested the unfairness of the "preference clause," whereby the customers of business-managed electric companies are unfairly prevented from enjoying any of the power produced by Federal projects, even though they have to pay the taxes which finance these projects. And there are other bills to trim FPC jurisdiction under the Federal Power Act, as a result of inflation of such authority, by U. S. Supreme Court decisions, beyond the original intent of Congress.

But it is an election year and the prediction must be made that no final approval of any such bill in Congress is likely to occur. At best, these bills will make good talking points for affirmative action at a later date.

9. *Transit troubles.* A good many transit companies are just about reaching the end of their string as far as making ends meet goes. Their difficulty is the fact that every time they almost get around to making the ends meet, some labor union comes along and moves the ends.

With the point of diminishing return definitely in sight, for increased transit fares, we can expect to hear more serious proposals for tax relief of privately owned transit companies during the coming year. Wide publicity already is being given to the proposal of W. Marshall Dale, president of Indianapolis Railways, that the transit systems be given some measure of exemption from state and municipal taxes. It is being pointed out that airports and municipal transit systems already have such tax-free advantages (even though many of them are running deficits with equally high fares).

The so-called Bingham formula for combining private operation with municipal responsibility, is also being widely discussed. So the prediction



Q "THERE are going to be some serious disputes in the labor field in the year 1952 and public utilities cannot expect to get off scot-free, even though most of the strikes will probably occur in other lines. With the next round of wage demands already being considered by the steel industry, this writer looks for trouble in the telephone and transit fields before the year is over."

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here is that something will actually be done; steps will have to be taken during 1952 to solve the transit companies' economic dilemma. Since fares cannot be raised much higher, and since the inexorable advance of wage demands cannot be stopped, the answer is either municipal ownership or tax relief. Because most cities which are not already in the thankless transit business have little desire to get into it, a way may be found out, via tax exemption or combined operations.

10. *Labor troubles.* There are going to be some serious disputes in the labor field in the year 1952 and public utilities cannot expect to get off scot-free, even though most of the strikes will probably occur in other lines.

With the next round of wage demands already being considered by the steel industry, this writer looks for trouble in the telephone and transit fields before the year is over. There is no use elaborating on such a blunt prediction; but we might also observe when the smoke and battle of the 1952 election campaign are cleared away, the Taft-Hartley Law will still be there.

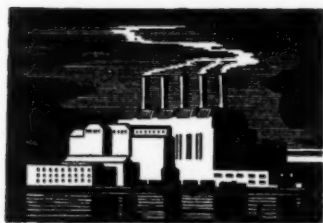
AFTER looking over the foregoing ten predictions of things to come in the utility picture from the standpoint of Washington developments, it is probably necessary for your prophet to assure the reader that he is not being satirical in wishing all a very happy New Year. After all, he could be wrong.

The Intent of Congress

"THIS nation began through the colonization of communities, finally progressed into the establishment of states, and was welded into a union or federation of states. We still do attempt to recognize the existence of special sovereignties for each of the three levels of government—Federal, state, and local. Originally it was the intention of the founders that the Federal Congress that is, the House of Representatives and the Senate, would deal mostly only with those things which dealt with matters between states or with other nations. It is altogether proper that this distinction be kept clear and that the proper approach by the Federal Congress be kept in mind.

"We who serve on the Appropriations Committee are continuously interpreting the activities of the Federal departments in terms of what the Federal Congress meant by laws which it had passed and under which various and sundry programs are being carried on by the Federal Congress. Our form of government has led us into a position of prominence in the world but like all other successful operations, our Federal government quite often becomes a bureaucratic law unto itself."

—WALT HORAN,
U. S. Representative from Washington.



What Will "Recapture" Mean For FPC Hydro Licensees?

Part I

In this first part of his analysis of hydroelectric licensing regulation from the standpoint of "recapture," the author describes the historical background and early policies leading to the enactment of the Federal Water Power Act, now part of the Public Utility Act of 1935.

By SAMUEL H. CROSBY*

THE case of Niagara Mohawk Power Corp. v. Federal Power Commission, recently argued before the U. S. Court of Appeals in Washington, is likely to be listed in the law books as a leading one. It involves determination by the Federal Power Commission of amortization reserves for the reduction of the cost to the government of licensed hydroelectric projects, in the event of "recapture" when the license expires. The case is the first involving several technical issues and a Supreme Court decision is expected by both litigants.

The Niagara Falls Power Company, subsequently merged with Niagara Mohawk, was licensed March 2, 1921, under the Federal Water Power Act to produce electric power for a term

of fifty years. The licensee claims the right to use 20,000 cfs of water available by Canadian treaty, diverted from the Niagara river above the falls to its hydroelectric plant in Niagara gorge.

The law requires a licensee, after the first twenty years of operation, to establish and maintain *amortization* reserves. The license, following statutory terms, is in all respects a contract with the government. In the customary case, as in this, a rate of return on the licensee's *net investment* is specified in the license. During the first twenty years of operation the licensee pays moderate annual charges to reimburse the government for the cost of administering the law, and rental for Federal lands or other public property if any is used.

Depreciation reserves must be established and maintained during the

*For personal note, see "Pages with the Editors."

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20-year period, as calculated by the commission.

More specifically, this is the wording of the statute:

That after the first twenty years of operation, out of surplus earned thereafter, if any, accumulated in excess of a specified reasonable rate of return upon the net investment of a licensee in any project or projects under license, the licensee shall establish and maintain amortization reserves, which reserves shall, in the discretion of the commission, be held until the termination of the license or be applied from time to time in reduction of the net investment. Such specified rate of return and the proportion of such surplus earnings to be paid into and held in such reserves shall be set forth in the license.

NIAGARA MOHAWK has not established amortization reserves for the 5-year period following its "first twenty years of operation." The commission's accountants have determined the "surplus earnings" for that 5-year period to be \$1,828,864.08 and the commission has ordered the licensee to establish an amortization reserve account and credit it according to the provisions of the license with one-half of that sum, \$914,432.04. Collateral issues involved emphasize the comprehensive significance of the case.

The Niagara Falls Power Company, Niagara Mohawk's predecessor, was the *first* company to receive a license under the Federal Water Power Act. One of the oldest, it is the most powerful privately owned hydroelectric plant in the United States, developing 559,500 hydro horsepower. Although the licensee claimed \$44,500,000 invested in the plant, the "actual original legitimate cost" allowed by

the commission, and forming the basis under the law for all accounting and regulatory processes, is approximately \$28,000,000. Further reference to the issues in this important case will be made in subsequent pages.

THERE are now in the United States 192 *major* hydroelectric generating plants, built by private capital on navigable streams and in national forests, licensed by the Federal government for not exceeding fifty years to use water power. There are also several hundred *minor* hydroelectric installations — none converting more than 100 hydraulic horsepower — operating under similar licenses. These smaller power plants render invaluable utility service at low cost to small and isolated communities. Seventy-seven of the major licensed projects had reached the "amortization reserve period" by June 30, 1951.

There are several little-known but far-reaching powers reserved to the Federal government under these license provisions:

(1) At the expiration of any license, after two years' notice of intention, the government *may* take over the project by reimbursing the licensee for the "*unamortized balance*" of the *net investment* (not exceeding fair value), plus severance damages if any. (2) Even if the government does not purchase, but a willing and able purchaser of the project applies for a license "under then existing laws," he may compete with the original licensee for a new long-term license. (3) The Water Power Act provides as follows:

... in the event the United States does not exercise the right to take over or does not issue a license to a new li-

WHAT WILL "RECAPTURE" MEAN FOR FPC HYDRO LICENSEES?

censee, or issue a new license to the original licensee, upon reasonable terms, then the commission shall issue from year to year an annual license to the then licensee under the terms and conditions of the original license until the property is taken over or a new license is issued as aforesaid.

THE orderly development of hydroelectric power by private capital under Federal license and regulation is a distinctive and successful achievement of our democracy. The Federal Water Power Act was the composite product of many minds, hammered into statutory form out of a conflict of interested opinions involving the rights of our pioneers and the conservation of a great natural resource. The avowed purpose of its authors and sponsors was to prevent unrestrained monopolization of falling water, and to preserve this inexhaustible natural resource under public control by licensing and regulating its use.

Long before the conservation movement took form, valuable water-power sites had been developed under private ownership. The Homestead Act was passed in 1862 and by 1865 the westward stampede of settlers was well under way. Railroad land grants between 1862-1871 opened many millions of acres for purchase. Government policies made it easy to acquire

timber and mineral lands. It was not until 1891 that Congress authorized the President to set aside and hold as national forests timbered areas of the public domain.

WITH the opening to settlement of the Cherokee Strip in 1889 and parts of the Rosebud-Standing Rock Indian reservations in South Dakota about 1900, the profitable free land days were over. In 1909 the public domain (including Alaska) contained around 730,000,000 acres, according to Charles A. Beard, and from 1868 to 1923 "approximately 213,860,000 acres had been given away to settlers, real and pretended."

Between 1860 and 1890, 130,000 miles of new railroads had been built and the states of California, Oregon, and Washington were experiencing the first phase of their phenomenal development. These states by the turn of the century, and particularly California, had gone forward with plans for hydroelectric development of such magnitude that for some years an excess capacity imposed serious economic burdens upon the pioneer companies.

In its broader aspects the whole conservation movement may well have found its roots in the political and economic practices of these prodigal early years of the occupation of the West.



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THE Federal Water Power Act was approved by President Wilson June 10, 1920. It was amended March 3, 1921, withdrawing the authority of the commission to license water-power projects or transmission lines in national *parks* or national *monuments* without the specific approval of Congress. It was again amended by an act approved by President Hoover June 23, 1930, whereby the Federal Power Commission, originally made up *ex officio* of the Secretaries of War, Interior, and Agriculture, became an independent administrative agency in the executive branch of the government, with five full-time commissioners appointed by the President subject to senatorial confirmation. Until 1950 the full commission elected its chairman. Now the President appoints the chairman, whose executive powers have been greatly enlarged.

The Public Utility Act of 1935, approved August 26, 1935, was a tremendous expansion of previous administrative Federal jurisdiction over electric public utilities. The Federal Water Power Act with slight amendment was carried forward as Part I of the Public Utility Act of 1935; Part II for the first time gave very comprehensive jurisdiction over the interstate transmission of electric energy and public utility companies engaged therein; and Part III contains administrative and procedural authority relating to interstate utility operations under Part II and to licensees under Part I.

Aside from necessary changes to accommodate the act to its new setting, as Part I of the Public Utility Act, and with the exceptions noted, the

original statutes of 1920 remain unchanged.

THE 192 licensed *major* hydro projects (11 of which are still under construction) have a total estimated cost of nearly \$1.2 billion and an authorized capacity of 8,678,000 horsepower. That is approximately 10 per cent of all electric utility generating capacity in the United States, which had reached 65,596,000 kilowatts¹ by June, 1950, with an additional 16,100,000 kilowatts planned by the end of 1953. The current expansion program is presently retarded by lack of various materials in short supply.

The constantly expanding list of important licensed hydroelectric projects includes many spectacular engineering achievements. Ross dam on the Skagit river, of which the city of Seattle is understandably quite proud, is growing in planned stages. Its present height is about equal to the forty-eighth floor of the famed Empire State building in New York city. When the remaining 130 feet have been added and the full height of 675 feet attained, the spillway will be above the height of Empire's sixtieth floor. When completed Ross dam is expected to develop 320,000 horsepower. The height of Boulder dam, highest in the world, is 727 feet, just 52 feet more than Ross.

Not far from Ross dam, but on the eastern slope of the Cascades where the Chelan river has been dammed, backing up the water in Chelan Lake, the reservoir at one location is almost 1,500 feet deep. Pacific Gas and Elec-

¹ Seven hundred and forty-six watts equal one horsepower; one kilowatt is approximately one and a third horsepower.



The Genesis of Federal Hydro Regulation

"THE Public Utility Act of 1935, approved August 26, 1935, was a tremendous expansion of previous administrative Federal jurisdiction over electric public utilities. The Federal Water Power Act with slight amendment was carried forward as Part I of the Public Utility Act of 1935; Part II for the first time gave very comprehensive jurisdiction over the interstate transmission of electric energy and public utility companies engaged therein; and Part III contains administrative and procedural authority relating to interstate utility operations under Part II and to licensees under Part I."

tric's 67,000-horsepower Buck's Creek project is operated under a 2,561-foot static head. There are five high head hydro plants in the United States, above 2,100 feet. Buck's Creek is highest of these.

WATER-POWER potentials in the nation fortunately are well distributed, as compared with other fuel deposits. The Pacific coast states, poorly endowed with fuel, are particularly fortunate in the possession of an estimated 40 per cent; if Montana, Wyoming, Idaho, Colorado, and Utah are added, the western half of the nation has fully 70 per cent of its water power. Of the remainder, around 12 per cent is in the area east of the Mississippi, south of the Ohio river. The

northeastern section has about 8 per cent.

These estimates are not too recent but are from competent sources. They clearly indicate the importance of intersystem co-ordination of steam and hydro plants in the Appalachian area where bituminous coal and water power seem pretty certain to be the principal permanent sources of electric service.

IN 1892, ten years after Edison opened the doors of the first electric utility generating station in Pearl street, New York, the General Electric Company was organized for an expansion and consolidation of Edison's interests (and patents) with others. About the same time, George West-

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inghouse organized Westinghouse Electric & Manufacturing Company and the interchange of patent rights led naturally to noncompetitive specialization in manufacture.

The mechanical application of water power had, of course, gradually increased from colonial days. During the half-century preceding 1870, important factories, each developing up to 15,000 horsepower, had been established at many riverside locations as far west as the Mississippi river. These larger plants supplied an estimated aggregate 150,000 horsepower before the dynamo became available. In due course many of them were converted to low head hydro projects.

There were many failures, both mechanical and financial, during the early years of hydroelectric development. The very nature of the business required large initial investments. Hydro plants do not readily lend themselves to piecemeal growth. From the investment standpoint, hydroelectric generation got off to a discouraging start. The natural result was the growth and development prior to 1909 of financially strong companies, specialists in the business.

IN 1909 the Federal Bureau of Corporations reported that thirteen such companies and their affiliates owned or controlled about 60 per cent of the more desirable water-power sites. Many of the principal corporate pioneers and founders of the hydroelectric industry in the period 1900 to 1920, and their direct successors, remain in the front rank today. In that period an act of Congress was necessary to permit the building of a dam in navigable waters and Congress actual-

ly passed nearly a hundred authorizing acts, some granting 99-year or perpetual rights, before the Federal Water Power Act became law.

In the western states where few streams were then classified as navigable, about half of the hydro power in the early years was developed under revocable permits of the Bureau of Forestry first under the Department of Interior, transferred in 1905 to the Department of Agriculture. Such operations definitely required *venture capital*.

THE first congressional act suggesting an interest in Federal supervision and control of navigable waters was the Rivers and Harbors Act of 1884. This act merely required the Secretary of War to investigate and report whether bridges or structures, in place or under construction, were obstructing navigation. Until this time the states had provided whatever control seemed desirable within their own borders, and claimed this right.

Another Rivers and Harbors Act was passed in 1890. Navigation of inland waterways had assumed large proportions. This act prohibited any obstruction to the "navigable capacity" of waters subject to Federal jurisdiction, "not affirmatively authorized by law." An act of Congress was thereafter necessary before any hydroelectric project could be commenced.

The constitutional power of Congress "to regulate commerce with foreign nations, and among the several states, and with the Indian tribes," was of course the basis for these and subsequent laws establishing broad Federal jurisdiction over navigable streams, just as it had afforded the

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basis for the Interstate Commerce Act of 1887.

The Rivers and Harbors Act of 1899 went much further than that of 1890 by the outright assumption of Federal jurisdiction, making it unlawful "to construct or commence the construction of any bridge, dam, dike, or causeway over or in any port, roadstead, haven, harbor, canal, navigable river, or other navigable water of the United States until the consent of Congress to the building of such structures shall have been obtained and until the plans for the same shall have been submitted to and approved by the Chief of Engineers and by the Secretary of War. Provided, that such structures may be built under authority of the legislature of a state across rivers and other waterways the navigable portions of which lie wholly within the limits of a single state . . ."

Federal control was preserved, however, by the requirement that after the state legislature authorized the works, plans were subject to the approval of the Chief of Engineers and the Secretary of War.

IN 1906 Congress passed another Rivers and Harbors Act setting out specific conditions with which all hydroelectric projects must comply before Congress would pass an act au-

thorizing the construction, a distinct and necessary step toward uniform regulation. In 1910 this act was amended, limiting the term of the grant to fifty years.

Economic conditions were unfavorable to large undertakings for several years prior to 1908 but during that year a score or more of enabling acts under the act of 1906 were approved by President Theodore Roosevelt.

An important project on the Rainy river, a boundary stream between Minnesota and Ontario, had been authorized by act of Congress some years previously but for perfectly valid reasons congressional extensions of the construction period had been necessary. Quite unexpectedly Roosevelt vetoed the bill granting a further extension. Subsequently he learned the true circumstances of the case and at his own suggestion his veto was overridden.

PRESIDENT Roosevelt's veto message in the Rainy river case enunciated the principles and objectives of the water-power conservationists whose 12-year campaign was then commencing. This is the essence of the message:

Every permit to construct a dam on a navigable stream should specifically recognize the right of the government to fix a term for its duration and to impose such charge or charges as may



"THE orderly development of hydroelectric power by private capital under Federal license and regulation is a distinctive and successful achievement of our democracy. The Federal Water Power Act was the composite product of many minds, hammered into statutory form out of a conflict of interested opinions involving the rights of our pioneers and the conservation of a great natural resource."

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be deemed necessary to protect the present and future interests of the United States in accordance with the act of June 21, 1906. There is sharp conflict of judgment as to whether this general act empowers the War Department to fix a charge and set a time limit. All grounds for such doubts should be removed henceforth, by the insertion in every act granting such a permit, of words adequate to show that a time limit and a charge to be paid to the government are among the interests of the United States which should be protected . . .

We are now at the beginning of a great development in water power. Its use in electrical transmission is entering more and more largely into every element of the daily life of the people. Already the evils of monopoly are becoming manifest; already the spirit of the past shows the necessity of caution in making unrestricted grants of this power.

The present policy pursued in making these grants is unwise in giving away the property of the people in the flowing waters to individuals or organizations practically unknown, and granting in perpetuity these valuable privileges in advance of the formulation of definite plans as to their use. In some cases the grantees apparently have little or no financial or other ability to utilize the gift, and have sought it merely because it could be had for the asking.

About a year before this veto message was written, Mr. Roosevelt had signed a bill giving a perpetual license to Alabama Power Company to build a dam at a strategic point in the Coosa river. The Rainy river veto message seemingly marked a sharp change of executive opinion.

FROM a very casual glance at these pages of our political history it appears that notwithstanding the aggressiveness of the pioneer "empire builders," and the earlier lack of government restriction, "falling water" has been rather well protected as a national heritage.

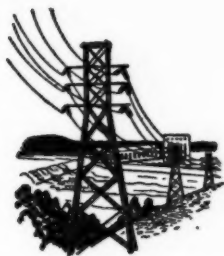
There is another point which appropriately may be made before we go into more contemporaneous matters involved in hydroelectric regulation. The authors and sponsors of the Federal Water Power Act, while establishing a plan for amortizing the plant investment, did not attempt to *commit* the government to recapture. The act goes no further than to provide a plan whereby the property *may* become owned by the government, if that should be the public will at the end of fifty years. There was no intent to determine policy for future generations.

PART II of this article will appear in the next issue of the FORTNIGHTLY.

Passing the Bluff

"**T**HERE is confirmed suspicion outside of political circles in this country that the red rulers of Russia are carrying out a big bold bluff. There is another suspicion that our political leaders are using that bluff in the hope of perpetuating themselves in power and imposing more control over all industry—with Socialism and nationalization as the ultimate objectives."

—WILLARD F. ROCKWELL,
Chairman of the board, Rockwell
Manufacturing Company.



Private Enterprise Builds a Hydro Dam in the Northwest

This article is a description of privately owned utility company development in a region where Federal projects predominate. Shortage of power in this area of Federal development has undoubtedly resulted in some measure from discouragement of private investment. This story tells how one company is standing up and expanding in the face of such repressive influence.

By ROSCOE AMES*

THERE'S a strong possibility that a new era has opened in the Pacific Northwest. The historians may well refer to it as "starting at the mid-century mark when private enterprise returned to the field it first pioneered: dam building."

The readers of those accounts who noted carefully the preceding chapters of twenty years or so, will be amazed to find private utilities of the area plunging with what seemed almost reckless abandon into a field dominated by the Federal government and infested with public utility districts. And to make it more amazing, at a time when some difference of opinion existed on the public *versus* private ownership question in the group's top echelons.

*For personal note, see "Pages with the Editors."

Yet today the unbelievable is happening. Private utilities, including the Washington Water Power Company whose operating management has been for many years in the front-line trenches in the fight against public ownership, have listened to the voice of the people, and, disregarding tremendously tough odds, have launched a half-billion-dollar dam building program that will by 1955 provide the area with nearly a million and a half kilowatts of new generating capacity.

It has been welcome news to the citizens whose tax dollars won't be required.

NOTABLY in the case of Washington Water Power, the decision to increase its own sources of production was not hastily made. After World War II, it put the problem squarely

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up to employees, pointing out that, with the backing of the people served, there was no limit to the happy future of the company and the industry.

Employees showed that when given the facts they could be experts in the field of public relations and friend making.

On an organized basis during the past four years they have cut to less than 9 per cent the number of misinformed, do-gooders, and die-hards favoring public ownership.

With such backing—though still in the shadow of the world's biggest, and publicly controlled Grand Coulee dam—WWP was one of the first to say, "grant us a license and we'll build you a dam."

And now, only a few short months since that "green light of a Federal license" was granted, one of Idaho's most challenging rivers has been diverted from its ice-age channel, and 900 hard-hatted and tough-muscled construction men are laying the foundations for the state's largest power plant: Cabinet Gorge, on the Clark Fork river.

CABINET GORGE is set to deliver 200,000 kilowatts of sorely needed electricity to the Northwest Power Pool during the fall of 1952, nearly a year ahead of any other project—Federal or private—in the area.

The project will cost private investors upward of \$40,000,000 and will double the capacity of WWP in its Washington and Idaho service area.

The project was initiated and pursued by WWP, the pioneer power producer in the territory, in direct response to the necessities occasioned by the critical electric power shortage af-

fecting northwest industrial plants, farms, and homes.

Permission to build the plant had been granted WWP by the Federal Power Commission in January, 1951, with the application held but two months, one of the quickest approvals on record.

It was hailed with vocal enthusiasm by citizens throughout the area who realized development of the site by a private company would save taxpayers money and make more government resources available for national defense at this critical time.

Ebasco Services, Inc., New York engineering firm, and designer of the project, is in charge of construction under supervision of WWP officials.

Holding the prime contract for construction of the dam and power plant is Morrison-Knudsen Company, Inc., of Boise, internationally famous builders.

Although larger, and started later, the development will be in production earlier than the government's near-by Albeni Falls project on the Pend Oreille river in northern Idaho. The Cabinet Gorge site is also being developed by private interests at approximately half the cost estimated by Federal departments a few years ago.

THE site of Cabinet Gorge is located a half-mile west of the Idaho-Montana line, eight miles east of Clark Fork, and a short distance from Pend Orielle lake. The gorge itself is only about a half-mile long, containing dark ledges of rock where the swift-flowing river turns sharply in Z bends. The canyon walls range from 250 to 350 feet high, and the water has a depth of about 70 feet. A

PRIVATE ENTERPRISE BUILDS A HYDRO DAM IN NORTHWEST

waterfall is said to have slashed through the spur of rock in ages past to create the gorge. It was first viewed by white men when English explorer and fur trader David Thompson traversed the river into what is now Montana in 1809.

The dam itself will be a reinforced concrete arch-type structure rising 170 feet from the river bed, and 500 feet long. It will be 30 feet in width at top elevation and approximately 50 feet in width at bottom elevation. Reinforced concrete flood-control works are to be located on top of the dam and will consist of eight vertical lift gates 40 feet wide and 35 feet high, capable of passing a maximum flow of 230,000 cubic feet per second, and designed to maintain a pond level at elevation 2,175 at the dam.

The reservoir will extend approximately 24 miles upstream, with a normal surface area of about 2,700 acres. The Montana state legislature early this year passed special legislation to permit the storage of water for use outside the state. Less than half the acreage involved had established buildings. Approximately 1,400 acres of land are being cleared, the amount of ground to be flooded by the normal reservoir level. The reservoir has a 50-mile shore line, 12 miles of which had been under ownership by the Federal government in the Cabinet national forest, and 10 miles owned by the

Northern Pacific Railway. The dam site itself was purchased from NP.

Seven miles of NP track west of Noxon, Montana, as well as five miles of state highway, and a mile of county road are being raised or relocated.

THE power plant will be 400 feet downstream from the dam on the north bank of the river. It will be a reinforced concrete substructure containing propeller-type turbines and supporting semioutdoor-type vertical generators. Four reinforced concrete-lined penstock tunnels 27 feet in diameter and 450 feet long driven through solid rock, will supply water to 70,500-horsepower turbines. Each generator, being built by Westinghouse, has a rated capacity of 50,000 kilowatts.

The entire project will require the excavation of 500,000 cubic yards of rock, and will call for 140,000 cubic yards of concrete and more than 4,000 tons of reinforcing and structural steel.

The dam site is one of the most spectacular in the Northwest, and the diversion of the river, because of the location—including the rugged, vertical walls of the canyon—the narrowness of the project area, and the limited building time, is said by engineers to be perhaps the toughest ever encountered in the West.

The Clark Fork river, a main tributary of the Columbia, has its

C"CABINET GORGE is set to deliver 200,000 kilowatts of sorely needed electricity to the Northwest Power Pool during the fall of 1952, nearly a year ahead of any other project—Federal or private—in the area. The project will cost private investors upward of \$40,000,000 and will double the capacity of WWP in its . . . service area."

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peak flow in the months of May and June (113,000 cubic feet a second this year), and carries an average maximum quantity of 75,000 cfs during the peak time.

First job of the contractor was the driving of twin diversion tunnels 29 feet in diameter and 1,000 feet long, to bypass a maximum of 25,000 cfs during the low water period.

It will be necessary to complete the concrete dam prior to high water state of the second construction season as the present rock-filled coffer dam will then be topped.

INITIAL steps in closing the river were accomplished this August when a mighty 32-ton dynamite blast ripped 50,000 cubic yards of rock cliff from the south canyon wall of the gorge and sent it sliding with an earth-shaking roar into the river a hundred feet below. It was the largest single blast on the project site, and was felt 30 miles distant in Sandpoint, Idaho.

Immediately a fleet of trucks began dumping loads of clay and gravel into the river from a swinging bridge just upstream from the newly formed coffer dam to form a seal on the upstream side.

Meanwhile bulldozers swarmed over the rock-filled river, leveling the blast area for additional fills. The cofferdam called for some 100,000 cubic yards of rock. Another smaller rock-filled dam was created a short distance downstream, and giant pumps are now unwatering the area between.

Major concrete pouring was set to start in November, with work on the dam and power plant going forward during the winter, and installation of generators starting next spring. About

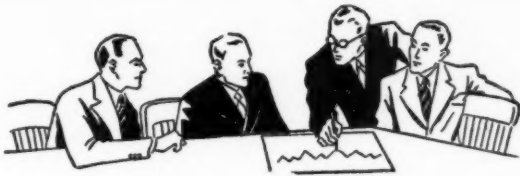
900 men are at work for the general contractor, and several hundred more are carrying forward reservoir clearing and railroad and highway relocation.

Because of the thin section of the dam and rough topography at head and tail towers, the contractors plan to use a fixed cable way and drift the concrete bucket to the required locations. Guyed cable-way towers of timber construction, 125 feet and 150 feet high, have been built on precipitous cliffs with an 850-foot span cable carried over the towers and anchored to concrete blocks.

ACCESS into the site early in 1951 was difficult, and until ample roads were slashed through the rugged terrain, personnel was transported to various phases of the project largely by means of catwalks, skips handled by cranes, and high-line and suspension bridges. Frequently, bulldozers had to be lowered over cliff sides by cable, and anchored until they could claw a working shelf in the vicinity.

At one point, a 300-foot-long suspension catwalk provides access from one side of the river to the other. This bridge also carries a pipeline for the delivery of cement to the mixing and batching plant. It is blown by air pressure for a distance of 1,000 feet. Concrete will be delivered to the powerhouse by shuttle car powered by an electric motor. At the powerhouse concrete buckets will be removed from the shuttle car and their load distributed by a 25-ton stiff-leg derrick with a 200-foot boom, one of the two largest in operation in the United States.

A screening and washing plant is located about 3,000 feet from the mix-



Volunteer Workers for Utility Cause

"... WWP has for the past several years maintained an organized program among employees in which the workers themselves have volunteered to win the consumer to the side of private industry. It is the very thing that has made such projects as Cabinet Gorge possible. They have cultivated scores of friendships by just being good citizens, helpful to their neighbors, and unafraid to go out of their way to perform useful deeds of kindness."

ing and batching installation, and aggregate material has been accessible near the project.

The contractor's camp site contains sixteen 8-man cottages and two 24-man cottages. Each man has an individual roomette, complete with electric heater. A 30-man kitchen and mess hall staff puts food on the tables in a 128-man mess hall twelve times a day.

WWP has built ten permanent modern homes to be occupied by the plant's operators this year. At present they are occupied by Ebasco and M-K officials. Trailer camps dot the mountain landscape from the dam site 30 miles back down the highway to Sandpoint. Small communities are abuzz with activity accompanying "the boom."

A 35-MILE-LONG 110,000-volt transmission line to supply construction power was rushed to completion by a large WWP crew in March from a tie line with the Northwest Power

Pool network at Sandpoint. Initial power was furnished by the Mountain States Power Company through an interconnection at Clark Fork.

A switchyard will be built at a point just above the powerhouse where a sizable rock point was blasted level. From this location a 230,000-volt transmission line some 80 miles long will be built to Spokane to connect with the company's major switching center, linking the plant with the WWP system and the Northwest Power Pool.

Cabinet Gorge will bring to 12 the number of hydroelectric plants operated by WWP. Its first plant was built in Spokane in 1889, the year the company was incorporated, and at that time ranking No. 7 in power plants to be built in the nation during those pioneer days.

Last plant built was the Chelan station at Chelan Falls, Washington, in 1928. To keep ahead of demand, as

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was its custom, the company had two other power sites in line for development. One was on the Spokane river and the other on the Columbia at Kettle Falls. The firm had spent nearly a half-million dollars on preliminary work at Kettle Falls when it was decided to build the high dam at Coulee. The site was flooded over.

WITH the construction of Coulee and Bonneville, and with private opportunities for power development by private firms eliminated, the Federal government took the responsible rôle for future power generation in the Northwest, leaving WWP virtually dependent on that source for a sizable part of future power supply.

During continuing power shortages in the area, and the war emergency of the past, it became all the more desirable for non-Federal operators to proceed in development. With this much of a "green light" WWP filed immediately on the Cabinet Gorge site, and stood behind its offer to raise the necessary capital from private sources.

It is of interest at this point to list the construction expenditures and amounts of new generation planned to be made available by northwest private utilities by 1955. The following was reported by company executives at the annual business development meeting of the Northwest Electric Light and Power Association, held in Portland this year: Idaho Power \$90,000,000—225,000 kilowatts; Montana Power \$36,000,000—60,000 kilowatts; Pacific Power & Light \$53,750,000—108,000 kilowatts; Portland General Electric \$59,000,000—125,000 kilowatts; Puget Sound Power & Light \$25,000,000—225,000 kilo-

watts; Utah Power & Light \$70,000,000—225,000 kilowatts; California Oregon Power \$55,000,000—225,000 kilowatts; British Columbia Electric \$111,000,000—250,000 kilowatts; and Washington Water Power \$57,000,000—200,000 kilowatts.

THAT the decision by WWP to build at Cabinet Gorge had the stamp of approval of the people, was evidenced at a formal ground-breaking ceremony sponsored by ten chambers of commerce in the area at the site on April 1, 1951, and which drew some 4,000 people from the tristate area.

At a luncheon for 200 civic and business leaders from the three northwest states preceding special dam-site ceremonies, the theme of a private utility's return to a field dominated for twenty years by governmental agencies was pronounced.

Featured speaker was Major General Thomas M. Robins of Portland, retired Chief of the Corps of Army Engineers, who contended "it was right that private enterprise should play a major part in developing the 3,000,000 potential kilowatts of the 26,000 square mile Clark Fork Pend Oreille basin."

He called the Cabinet Gorge site "one of those places that make you say the Lord meant to have a dam there," and added that he felt "more comfortable" about private enterprise doing it.

General Robins pointed out that he knew of no region in the whole Columbia basin that was more fortunately situated and had more to look forward to in connection with its development of natural resources than the Clark Fork.

PRIVATE ENTERPRISE BUILDS A HYDRO DAM IN NORTHWEST

He took the same opportunity to condemn "government planners and others now proposing dams that would cost \$400 to \$500 per kilowatt of installed capacity compared to about half that cost for Cabinet Gorge." (He told newsmen he was referring to "such high-cost projects as Hell's Canyon on the Snake river.)

THERE seemed to be general agreement, both expressed and intimated, that the entire audience at the dam-site ceremony where the retired Army Engineer reappeared, accepted his challenge: "... you have an opportunity here to make the last stand for state's rights ... if you will stand firm and back up private initiative, private enterprise, and democratic ways of determining what your region will develop into."

Idaho's Governor Len Jordan said in a special message that "the \$40,000,000 proposed to be expended here will come back a thousandfold in this great Empire ... this project conceived, promoted, and financed by private enterprise, deserves Idaho's resounding tribute and salute."

A leading daily newspaper in the area, commenting on the company's plan to develop power at Cabinet Gorge, stated editorially, "... the

growth of the government agencies, particularly the Bonneville Power Administration, as distributing mechanism for regional power has, in fact, placed private firms under severe handicaps in performing their normal functions in a free enterprise economy.

"That the WWP has overcome some of these handicaps in forging ahead on the Cabinet Gorge project constitutes a tribute to the local management of the concern. Harassed as it has been, from above and below, it has shown a notable faith in its ability to serve the region and contribute to the Northwest's power requirements at this critical time.

"Cabinet Gorge, of course, cannot be compared with Grand Coulee, McNary, Hungry Horse, or Chief Joseph dams ... but this new project on the Clark Fork should play a vital part in the new economy of the Pacific Northwest. It should also become an imposing monument to the persistence of men who still believe in the type of free enterprise that has made America a great nation."

IT is, of course, in fact a monument to that persistence. One of the foremost figures, and an exponent of such persistence in northwest utility circles has been Kinsey M. Robinson, presi-



Q "PRIVATE utilities, including the Washington Water Power Company whose operating management has been for many years in the front-line trenches in the fight against public ownership, have listened to the voice of the people, and, disregarding tremendously tough odds, have launched a half-billion-dollar dam building program that will by 1955 provide the area with nearly a million and a half kilowatts of new generating capacity."

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dent of WWP. On many occasions he has pointed out the objectionable practices under Federal power domination, including the way Bonneville interprets the preference clause. He has urged that businessmen in all classifications support a critical public attitude calling for correction of such practices. Time and again he has called attention to the matter of subsidizing government power projects, both through tax exemptions and by not requiring that a reasonable return on public money invested be paid back into the U. S. Treasury. Although he has pointed out that northwest Federal projects are "comparatively exemplary" in such regard, he has been critical of the general government program and the public utility district organization for freedom from Federal income taxes and energy excise taxes, to name but a few of the special privileges they enjoy.

"If public power agencies are going to assume the functions of private business, then they should also assume the responsibilities of private business," Mr. Robinson has stated.

But the warnings go deeper than mere competitive aspects.

Speaking before the seventeenth annual convention of the Edison Electric Institute at Atlantic City in 1949, the northwest utility executive made a statement typical of his thinking.

"Either we will continue adding wealth to the nation and an ever higher standard of living for the individual," he said, "or we will revert to a great shrinkage in human motivation and material goods."

"We stand at that crossroads today," he warned. "If the iron hand of government is permitted to close com-

pletely over us, our era of happiness, as Hitler once predicted, is over."

AND only a few months ago, while he was describing the rôle of Cabinet Gorge in northwest economy to delegates at a North Idaho Chamber of Commerce meeting at Sandpoint, Idaho, Mr. Robinson said his company and its entire personnel were aware of what is happening to the nation, and were more than anxious to co-operate with businessmen throughout the area in achieving development and progress—and at the same time "keeping in mind what can happen should we lose our freedom."

"Planned economy has stepped out from around the corner," he said, "and is now waiting for us on the sidewalk unless we take a greater interest in the affairs of our communities, the state, and the nation."

To put that theory in practice, WWP has for the past several years maintained an organized program among employees in which the workers themselves have volunteered to win the consumer to the side of private industry. It is the very thing that has made such projects as Cabinet Gorge possible.

They have cultivated scores of friendships by just being good citizens, helpful to their neighbors, and unafraid to go out of their way to perform useful deeds of kindness. Too, they found places in all levels of society, there exhibiting a remarkable range of interest and ability. They have been constantly at the front in community-building activities.

BUT what is more important, they were made to feel right to begin

PRIVATE ENTERPRISE BUILDS A HYDRO DAM IN NORTHWEST

with. Company management took a long, hard look at its own ways of dealing with employees, and corrected shortcomings. Workers were made to feel they were an important part of the team, and were shown respect as individuals. The end result was that employees were willing to help "our" firm.

And they are provided the tools with which to do the job. Regular informational meetings are held during which time the weather-tanned union line worker sits down with the white-collared accountant and the pretty stenographer to familiarize themselves with aspects of the company organization and find the best ways they as workers and citizens can employ to help the company over its rough spots, and win loyal friends.

It was of little wonder, then, that announcement early this year by WWP's parent company to the Securities and Exchange Commission that it intended to sell the northwest operating company into public ownership brought a flood of protest from thousands of citizens.

When under this public pressure SEC allowed local interests to have a

voice in the matter at special hearings in the utility's general office in the city of Spokane, a multitude of businessmen, farmers, miners, and loggers, housewives and county and state officials from every corner of the territory, including Washington and Idaho public utility officials and attorneys representing many corporations and individuals, appeared before the examiners and demanded intervention.

IN a jam-packed and overflowing courtroom forty-seven witnesses appeared on the first day alone to testify before the commission. The atmosphere was tense, and not unlike the town-hall meetings of the nineties. The theme was unrelenting: "This is a swindle and we don't like it . . . we want to retain private ownership."

This is proof of the pudding. Good public relations mean support.

The outcome of the ownership dispute is not yet settled. But employees of private utilities and their friends in the Northwest don't talk in terms of defeat.

Their answer is quite plain.

It's being written today in concrete and steel at Cabinet Gorge.

The Value of Commercial Application of Atomic Energy

"I . . . find prominent members of the scientific advisory committee advising the public that all this sort of effort is not of much value. "Dr. James B. Conant, of Harvard, made a speech in New York saying that by 1960 we would all drop the development of atomic power as something that wasn't worth a candle, and Dr. Lee Dubridge, of California Institute of Technology, says that it will be thirty years before atomic power can be developed.

"Other members of this scientific advisory committee say that development of atomic power is not worth while.

"This lack of enthusiasm is wholly unjustified."

—HAROLD C. UREY,
Nobel prize-winning scientist.



So You Think You Could Be Boss!

Can the rank-and-file employee of a utility seriously aspire these days to be president of the company? If so, how does he go about it? A check on the presidencies of numerous important utility companies, including the Bell system where intramural promotion has become an established policy, shows that it can be done and it will be done. The question the employee should ask himself is whether he would like such a job after he gets it.

By JAMES H. COLLINS*

RIGHT now, somewhere in this favored land, a boy going to school is headed for President of the United States, to be inaugurated in 2001.

Unless it turns out to be a girl.

And somewhere, right now, a youngster just out of college is hunting his first job, and about 1980 will be president of the utility corporation you work for.

It might be your boy.

He may be writing his application to the wrong company, like young Walter Gifford, two generations ago, who picked General Electric as a good company to work for, but wrote instead to Western Electric, went to work in Chicago instead of Schenectady—but rose to be president of Bell Telephone.

*For personal note, see "Pages with the Editors."

Generally speaking, how do rank-and-file employees get to the top spot? President of the company!

The Old Man!

That king of all he surveys, the one in authority who, like the centurion in the Bible, says "Go" and they go, or "Come" and they come, and "Do this" and they do it—or else. In these days of huge organizations the majority of them may never see him. Picture him arriving an hour after everybody, in his big car, the elevator starter holding a lift for him to speed up to his luxurious office.

Independent, nobody over him, with his salary free from money worries, guarded from unwanted contacts, taking his ease in his club.

You see him in the advertising pages, sitting at a large acreage of polished desk, absolutely clean except for three phones, the intercommuni-

SO YOU THINK YOU COULD BE BOSS!

cating system, and buzzers enough to buzz for anybody in the cockeyed world. Clip this coupon, read this book revealing the secrets of management, take this home study course, and become such a person yourself.

Then how would you like his job?

How would it seem, how would you go to work, what changes would there be around there, what would it mean in your way of living, how does it feel to be the Boss himself?

Suppose we ask him.

LOOKING back into the past to remember how he got where he is, he may say that he wonders. There is a lot of luck in it. It might easily have been somebody else, as was the case with one utility president, who in his college days stayed late working on an interesting problem, and his "prof" walked into the "lab."

"Oh, it's you, Hawkes. I was looking for Jenkins, but as you're here, you'll do instead. The Valley Service Company wants a technician. I thought of Jenkins. But you go down there in the morning and see Hartwell, the manager."

Hawkes started in, the only college fellow ever seen in that company, hazed and belittled by the "practical" men who had learned the business the hard way, butt of rough jokes.

But the problems were absorbing, because the business had not yet been measured with scientific yardsticks. Things accepted as basic were found to be not so at all. Results developed like images on a photo film, service was improved, costs reduced.

The practical men simply would not see any merit in new methods, but there were youngsters—often the sons

of immigrants then pouring into this country—who were eager to learn. He was glad to teach them, for he needed helpers. They went along into a new era, while the old boys just faded away into retirement.

That was his beginning, because it showed him that utility management was more than half the picking of people. They are the Old Man's tools, a few keenly honed, but many more of them dull, not capable of taking an edge.

SPEAKING from the throne, the Old Man may let his hair down, and tell about the picking he has done, right and wrong, the guesses he has made, his hopes and disappointments in people, and the surprises, in these unpredictable and temperamental tools of his trade.

Thomas A. Edison when interviewed would be pretty certain to get onto that topic, and tell stories.

Once he had a complicated laboratory vessel and wanted to know its liquid capacity. He called in college-educated men, who took elaborate measurements, and went away to figure. Edison then filled the thing with water, and measured that.

He had some simple tests, but a long series, and hired German students to do the job. They worked so painstakingly that it took all day to get a half-dozen results. Edison wanted hundreds. So, he taught the method to a bright American boy, set him working near the Germans, and said:

"You are in Germany, do five or six tests a day, and get \$3. This boy is in America, does 30, gets \$10—how about coming over to America?" They came.

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Edison seemed always to be looking for and never finding men who had his own practical genius. The young college scientists coming up disappointed him—but they disparaged his practical science, and to the end of his life it was a drawn battle.

The utility fellow lies awake dreaming of promotion.

The Old Man lies awake thinking about that too.

NEW problems are being dumped on his desk every day. Engineering problems connected with new plant, distribution systems, operation. Human problems in employees and customers, financial problems, legislative problems—and problems.

Where are the individuals fitted to take over these problems, find solutions, make them work?

The right fellow may emerge in the organization, doing his work in a way that indicates he has what it will take. Sometimes a youngster, full of ambition, going to basic principles, and again a quiet fellow, capable of specializing in a certain field, probably of no use in any other. In these days it may be a problem for a woman.

The discovery of a promising individual raises other problems.

To be promoted, to learn that you have some special ability or experience that may be useful to the Old Man—that may go to the head.

There seem to be two different kinds of individuals, says one executive, the man who thinks of the job to be done, and the chap who is concerned with himself.

“What is this going to mean in salary?” the latter wants to know. “Do I get a private office, with a secretary? What about my title? And what kind of company car?”

What kind of car, what make, how big? has become a bit funny.

This particular executive has arrived at some views. As president of the company he is supposed to rate a big car, but actually he drives himself in a modest bus, and maintains that utility people are in a form of public service, and big company cars bad public relations. The customers who pay the monthly bills, and read about applications for rate increases, get to thinking dangerous thoughts when they see big company cars.

Rockefeller, Junior, once talked to his Dad about buying a bigger car, like his own.

“I can’t afford it,” said Rockefeller, Senior. “You have a rich father, and I haven’t.”

IN many other lines of business big cars are good advertising. But if utility employees are semipublic servants, then the advertising is not so good.

While the promotee is thinking



Q “THE upper-level business executive and professional man is very heavily penalized for success these days, because he is taxed upon a high salary that he earns for only a limited period. Our present tax muddle makes no allowance for the years of preparation, nor any for the years after it has stopped.”

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about titles and cars, the Old Man is studying the jigsaw puzzle of seniorities.

How can he advance this promising individual over the heads of others and keep everybody happy? That is a study in titles, salaries, blonde or brunette secretaries, authority—and wives.

Promotion can be dynamite, destroying usefulness.

So if he has that kind of individual to deal with, the Boss will very quietly cut-and-try. There are tests, sneak previews, mysterious assignments.

"What in heck do you suppose the old So-and-So is up to now?" speculates the organization. He doesn't know himself. It is being tried on Fido. Maybe they will never hear about it.

In contrast to the fellow who thinks mostly about himself, his standing, there is the one who, like young Gifford, began to study the problems of Theodore Vail and the Bell Telephone system.

Vail had quit a good job with the Post Office to go with the struggling telephone company, at no pay to start. Against opposition he had built up a company that still had to go through the wringer following a panic. He hated detail, yet had to plod through mountains of it to get facts to guide him in what he was doing. Young Gifford had developed a flair for statistics with Western Electric, and went out and got telephone statistics for Vail. He was thinking about the problems. Vail sent him out to get more.

WHEN utility companies have no more problems, there will perhaps be no opportunity for this kind of fellow. But until then, if he pro-

motes himself to the presidency of the company in imagination, and thinks about what he would do, not about salary or titles, but about meeting some of the situations constantly cropping up—he may go places.

The Old Man is often keenly interested in psychology, new tests, and researches that, he hopes, will tell him more about what makes people tick, and how to separate their abilities from their emotions and vanities.

A strong streak of self-effacement goes well in his job. It may be inborn modesty, but more often it has to be learned.

ONE utility president, on rising to the top position, had an eager beaver press agent. Immediately there began to appear newspaper stories about his personality, his rise from a humble position, his home life, and what.

Presently the new executive heard a figurative brick whizz past his head. It had been thrown by a friend, resentful of this publicity. At his club, in his neighborhood, everyday associates drew away from him, as something more than common clay. Not until the press agentry was stopped did he again become human.

Out of that experience, and his natural decency, he has developed a useful technique.

His position frequently lands him on public projects, national as well as local. Such projects usually start with the appointment of a committee, an investigating body, by the mayor, the governor, maybe the President. In England they have long had a nice word for it—the King in appointing a subject to such an unpaid dignity calls him "My dear cousin."



Utility Field Does Not Grow Millionaires

"FEW men have made a million in utilities, and not recently. Compared with manufacturing, trading, entertainment, and other fields where quick success brings the fast buck, utilities are a humdrum business. Gas, transit, telephone, electricity are services, offering many interesting opportunities, with fair rewards and security. But for spectacular success, look elsewhere."

WELL, when a lot of American "dear cousins" first come together on such a project, there is apt to be a battle royal of egos. Men who are important in their industries or professions find themselves in a noisy room with other strange Mister Bigs. They either assert themselves, or subordinates fight for their hand.

This particular executive is Mister Nobody during the preliminaries. He is bottom-of-the-barrel. He listens when told who the others are, asks about their views of how this project shall be carried out, volunteers nothing about himself.

By and by when things begin to simmer down it is observed that he has taken no sides, but seems to be well-informed. It is suggested that he be made temporary chairman. The others have got to know and like him. Nine times in ten he becomes the leader.

This bottom-of-the-barrel technique is not patented, and can be useful to

many a fellow who has not yet reached the presidency of the company.

The Old Man's independence is attractive to those who have to work under supervision, rules, and policies, and perhaps be called on the carpet for using their own initiative. When you get to the top, they figure, you are the Boss, lay out the policies, make the rules, there is nobody to call you down.

That is, nobody but the directors.

And the stockholders, and investment people, concerned with dividends, bond interest.

And the state regulatory bodies, and sometimes local authorities.

And the customers.

And the public, represented by many kinds of organizations.

Plus the newspapers.

And the taxpayers with their organizations.

And the men and women on the payroll, their wives, husbands, in-laws, and organizations.

SO YOU THINK YOU COULD BE BOSS!

Just assure them that they are getting more than the others, and you can do as you please. What Morgan said about doing business with glass pockets comes down to the hat check gal with no pockets at all.

As employees worry about money, it is taken for granted that the Old Man, with his salary, has no personal worries whatever. His not to reckon up rent, food, clothes, instalments, pay-check deductions, insurance, vacations, college, increased taxes on the home, emergencies like sickness or the sudden obsolescence of a refrigerator, a water heater.

What anxieties have the past twenty years attached themselves like barnacles to every pay check!

However, the Old Man is supposed to get a salary that erases all those worries. But his worries are the same, multiplied by maybe ten, and extended into the future.

Set his pay check at \$100 a day. He may have worked his way through college, and taken fifteen or twenty years in subordinate jobs to reach that salary. He can expect maybe twenty years at the top, earning \$600,000 in that period, which ought to put him on Easy street for the rest of his life.

But Federal income taxes alone will take more than one-third of every dollar he earns; there are state income taxes and other penalties for the higher bracket salaried worker. If he builds up an estate, the Federal and state tax collectors will take generous slices.

The upper-level business executive and professional man is very heavily penalized for success these days, because he is taxed upon a high salary that he earns for only a limited period.

Our present tax muddle makes no allowance for the years of preparation, nor any for the years after it has stopped.

ACTUARIES are now reporting that while the general expectancy of life is lengthening, that for business and professional leaders is growing shorter. They suggest that the rewards of such a career are becoming less attractive.

So you think you'd like to be the Boss?

Maybe there is a better career in a trade school training and a job lower down.

When it comes to company finances, multiply personal money problems by at least 1,000.

The personal situation may be replacing a home appliance that conked out last night—an unexpected \$300 to be found. It can be borrowed by going to the bank and explaining your job, salary, obligations.

With the Old Man, it can shape up like this representative corporation money problem:

Operating expenses have been increasing through higher cost of materials, equipment, and wages.

It is necessary to ask for an increase in rates to cover that.

Also, the community has been growing, with young people marrying and building new homes, as well as new people coming in.

So there must be more plant to take care of demand, which is today growing faster than supply in many communities.

Besides going hat in hand to the regulatory commissioners for higher rates, the Old Man must go to investors.

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AND for this nowadays he must take off his hat and make a deep salaam, because investors are getting better returns on other kinds of stock.

Which all heads back to the application for higher rates.

Which is exactly like the individual employee's problem of asking for a raise. The Old Man asks for a raise for everybody, and today is wondering if regulatory authorities are going to see the whole picture.

Pick out anything in personal financing — instalments, loans, rent, taxes, deductions, emergencies—he has them all multiplied.

Tempting to the individual who needs money is the offer of the lenders who say, "Cash immediately, no signatures or endorsements required, no inquiries of employer."

The Old Man must often wish he could find that kind of lender!

Does he ever watch the clock?

That means boredom in the job.

On a typical day he will have appointments, conferences, lunches, banquets, very important persons to receive and show around, trips to outlying plant, something like cornerstone laying, speaking engagements, dates arranged for him for this and that.

"I refuse to be bored," says one utility head. "If I find that I am, I do something about it."

"For example, conferences. When they begin to drool along, they have got off the track, and my job is to get them back."

"A smooth salesman once told me how he sells advertising to men in conference. First of all, he said, conferences are often called to get everybody's opinion, and subordinates are

there to register themselves with the Chief. A picture is shown, or a layout. Around the table each fellow is expected to give an opinion. One thing the girl could be younger, another questions a headline.

"Ah, I see you understand and this salesman says, or 'Have you done some writing yourself?' That gives each man an 'out' with the Boss, and there is no more interference."

"I have a substitute for conference. I call in a fellow I think can do a job and say, 'John, we need more plans or whatever the problem may be. I want you to go around, take your time, talk with everybody, and report the facts.' Men who might be confused at a conference, will talk to him as individuals, where they are, say what they really believe."

So you think you would like to be Boss? But are you sure you want to rise to the top in this particular business?

"If you want to make money go into some other industry," is the advice of one utility executive to young men starting out in life.

Few men have made a million in utilities, and not recently. Compared with manufacturing, trading, entertainment, and other fields where quick success brings the fast buck, utilities are a humdrum business. Gas, transportation, telephone, electricity are services, offering many interesting opportunities, with fair rewards and security. But for spectacular success, look elsewhere.

If you still want to be Boss, it is a great job, if you can handle it—although have a funny bone.

Washington and the Utilities



FPC Rules on Direct Gas Sale

THE Federal Power Commission is the latest regulatory agency which is blowing the whistle on direct gas sales by an interstate pipeline company to a heavy industrial consumer. The case follows the general pattern of the Panhandle Eastern Pipe Line Company Case of several years ago, in which the Michigan Consolidated Gas Company, serving the Detroit area generally as a gas utility, was objected to being bypassed for a direct sale to Ford Motor Company by the same wholesale supplier.

But both the cast and the forum are different in the FPC case. Whereas the Detroit utility took its troubles to the Michigan commission, the Omaha Metropolitan Utilities District asked (and received) from the FPC an order directing the Northern Natural Gas Company to stop selling gas direct to the Omaha Public Power District. Northern Natural Gas is the wholesale pipeline company, while the Metropolitan district renders utility service, generally, in the Omaha area. So now the Northern Natural Gas company is challenging the authority of the FPC to require it to cancel a contract to sell gas (for boiler fuel) direct to the Omaha Public Power District—bypassing the Metropolitan district. Both the local distributing utility and the direct sale customer are thus public agencies, in this latest FPC case.

The commission on November 1st ordered Northern to turn over its direct customer, Omaha Public Power District, to the Metropolitan Utilities District of Omaha, which Northern serves. Northern wholesales gas to 27 utility customers in five states and also has several direct customers, of which the Omaha dis-

trict is one. The power district uses natural gas for power generation.

Lawrence I. Shaw, general counsel for Northern, filed a request with the commission for a rehearing which was granted November 30th. Shaw said that Omaha Public Power District officials made no complaint against Northern's direct service. Nothing in the hearing record, he added, would justify a finding that improved service would result under the commission plan.

Shaw is seeking to have the Northern Company's capacity increased from its present temporary total of 675,000,000 cubic feet daily to 825,000,000.

Electric Utilities Need Thirty Million Kilowatt Increase

ELECTRIC power utilities of the nation are now planning to increase generating capability by approximately 30,000,000 kilowatts in 1952, 1953, and 1954, according to Administrator James F. Fairman of the Defense Electric Power Administration in a statement following the fifth conference of the Electric Utility Defense Advisory Council on December 6th.

This proposed electric power expansion, said Mr. Fairman, would improve the power supply situation on the basis of present load estimates. However, warned the DEPA Administrator, new loads of large size not included in these estimates but which are developing, could completely wipe out this gain.

The Electric Utility Defense Advisory Council consists of thirty-one members representing all phases of the public and private electric utility industry. The meeting was held in the Interior build-

PUBLIC UTILITIES FORTNIGHTLY

ing and was presided over by Administrator James F. Fairman as vice chairman, in the absence of Oscar L. Chapman, Secretary of the Interior and chairman of the group.

Secretary Chapman was represented by Richard D. Searles, Under Secretary of the Interior, who made the opening remarks at the conference. Administrator Manly Fleischmann, head of the Defense Production Administration and the National Production Authority, was invited as a special guest to speak on the subject of the defense mobilization program in 1952.

In his remarks, Administrator Fairman called attention to the fact that the Defense Electric Power Administration has now been in operation one full year, having been formally established on December 4, 1950, by Secretary of the Interior Chapman under the terms of the Defense Production Act of 1950.

COMMENTING briefly upon the results during the past year of its program for mobilizing the electric power industry for defense production, Administrator Fairman mentioned the following developments:

As claimant agent for some 4,000 electric utilities, including public and private systems and rural electric co-operatives, DEPA set up an orderly method of distributing aluminum, copper, and steel to the utilities for their defense construction projects long prior to the adoption of the Controlled Materials Plan;

Perfecting arrangement with the Rural Electrification Administration for allocating scarce materials to the electric co-operatives;

Established expediting assistance for electric utilities in need of special priorities aid;

Obtained from the utilities information on their material requirements;

Developed criteria with the Defense Production Administration for the review of applications by electric utilities for certificates of necessity for accelerated amortization, resulting to date in the approval by DPA of 72 projects with an

estimated power capacity of 4,127,400 kilowatts;

Conducted studies in all major electric power systems and interconnected networks to ascertain prospective power loads and scheduled power expansion projects;

Sponsored conservation methods in the use of scarce materials by electric utilities as well as vigorous scrap drives within the industry;

Expedited installation of new capacity in sections threatened with power shortages;

In co-operation with other defense and Federal agencies, as well as with state and local authorities and the utilities affected, DEPA established flexible conservation measures in the Pacific Northwest area for the use of electric power during the winter season of low-water conditions.

Can Defense Make Up Its Mind?

MAIN trouble in preventing further "slippage" in the power prediction timetable seems to be the uncertainty of defense requirements.

Turning to the consideration of the present and future power situation, Administrator Fairman emphasized the fact that again, as in 1950, power requirements increased faster in 1951 than the generating capability of the nation. In 1950, he pointed out, power-generating capabilities increased by 5,500,000 watts while requirements increased by 8,000,000.

During 1951, power generating capacity went up 7,000,000 kilowatts but power requirements went up 7,500,000 kilowatts.

"Present estimates indicate that by the end of 1952," said Mr. Fairman, "total capacity requirements will be in the neighborhood of 85,000,000 kilowatts. The generating capability, if the whole 1952 program is achieved, will be slightly less than 85,000,000 kilowatts. Thus, failure for the third successive year to increase the margin between supply and demand means that during 1952 we can expect greater areas in which the power supply will be precarious."

Exchange Calls And Gossip



NPA Communications Equipment Division

A WELL-ORGANIZED question and answer 4-page release has been prepared by the communications equipment division of NPA to assist the telephone companies in interpreting M Order 77 which governs the industry and in preparing form NPAF 117 as required by NPA for information purposes in allotting materials to the industry.

It should be particularly helpful to the small operating telephone companies where there is neither the time nor the personnel to make the exhaustive technical and legal studies necessary to fulfill the NPA requirements.

The 27 questions and answers cover such subjects as the distinction between B products and controlled materials; the purpose of NPAF 117; the use of allotment numbers and ratings; and hypothetical material problems. The construction of office buildings, warehouses, and garages is also covered. A copy of the release may be obtained by writing the communications equipment division, National Production Authority, Washington 25, D. C.

CWA Politics

THE Communications Workers of America (CIO) has become the first union to urge by way of public statement that President Truman seek another term.

On the strength of its 1948 action when the union was one of the first to endorse the President, the union president, Joseph A. Beirne, has now written the

President giving him the support of the 300,000 communications workers.

The 1948 endorsement was "but-tressed" by a poll conducted by the union leaders among its members. The present endorsement is not supported by such a poll but union President Beirne stated in his letter that "feeling within our union today, if there has been any change since then, is even stronger in favor of your election."

The letter went on to state the reasons for the current endorsement. Beirne wrote:

There are good reasons for this—your positive approach to implementing the 1948 platform of the Democratic party, a platform endorsed overwhelmingly by the American public at the polls, and your spotless record of courageous fighting for those objectives most beneficial to common, ordinary citizens of America—and the world.

The Beirne letter went on to state that the above is ample justification for the union supporting the President.

The REA Loan Contract and a State Regulatory Commission

CRITICAL comment on some of the stipulations in the REA telephone loan contract came recently from the Washington Public Service Commission. In granting the Farmers Mutual Telephone Company authority to borrow \$1,087,000 from REA, the commission criticized several provisions of the REA loan contract which seemed to tie up the company's managerial discretion.

PUBLIC UTILITIES FORTNIGHTLY

"The proposed loan contract," said the commission, "is replete with provisions that give the REA Administrator virtually complete control over Farmers with respect to numerous matters associated with security for the proposed loan, construction of the facilities, the requisitioning, advancement, and handling of funds for such construction, and operations during and after construction." The commission refused to interfere, however, in view of the fact that the company "in the exercise of its own independent managerial discretion," has indicated willingness to accept these provisions.

The Washington commission served notice that it would not bind itself to approve any future service rates simply to make such rates satisfactory to the REA as required by the contract. With respect to the REA "area service" requirement, the Washington commission approved as a reasonable qualification a "line extension policy" which is followed by other telephone companies in Washington, limiting the total cost of service extension to six times the annual exchange revenues (in the absence of a special contract with the subscriber).

IN connection with the company's ability to service the REA loan, the commission pointed out that its future commitments for repaying interest and principal were in excess of its present operating income. However, since service improvements may increase revenues, again the commission declined to interfere with the provisions at this time. A proposed debt ratio of 78 per cent was described by the commission as "being far in excess" of normal standards for sound telephone company financing. But it was observed that the Federal government had made it possible for the company to borrow on 35-year notes, money at a lower rate of interest than even the large Bell system companies can obtain, thereby justifying the high debt ratio.

The REA loan contract will soon be the subject of a booklet published by REA in answer to many questions raised about the contract. With it REA hopes to give its answers to many such questions

as those raised by the Washington commission. The commission action did not prompt it. The contract has been the subject of discussion for some time among observers in the telephone industry. REA is expected to defend many of its provisions on the grounds of "sound banking procedure." REA officials, however, are reported to be open-minded on any suggested revisions.

Most of REA's experience with borrowers from the government has been in the field of rural electrification where they dealt with newly formed co-operative groups unfamiliar with the electrification business and willing to accept REA standards for the conduct of their business affairs. It has been said before, and it may be said again, that REA officials now realize from their short experience in the telephone business that in the long-established companies, small though they may be, they are dealing with "old hands" in the business. And firmly entrenched business practices that have stood up over a number of years are difficult to change.

ANOTHER interesting development in the REA telephone loan field occurred recently in a hearing before the Kansas commission. During a hearing involving a proposal by the Pioneer Telephone Association of Kansas to take over three telephone companies near Ulysses, Kansas, cross-examination by members of the commission brought an important concession from REA co-op officials. Reversing a previous indication that all subscribers of the telephone companies to be absorbed would have to put up \$50 as a membership fee and pay annual dues, it was agreed that such "contributions" would be on a voluntary basis. Telephone subscribers will not be compelled to join the co-op in order to continue to get service.

Although not announced, REA may see fit to issue a loan policy statement covering this new point raised by the Kansas commission. REA has made it a practice to issue these policy bulletins for the guidance of its staff and for potential borrowers.

EXCHANGE CALLS AND GOSSIP

Eight-man Strike Question Settled

SOME weeks ago in these columns it was noted that the U. S. Supreme Court would have before it the question: Does the refusal of eight employees to cross a picket line constitute a strike? This is, of course, an oversimplification of the controversy where eight employees of the Illinois Bell Telephone Company did refuse to cross the picket line of another union and were subsequently reprimanded and demoted by their employers. The National Labor Relations Board had ruled that they had acted within the law and their actions constituted a legitimate strike. A U. S. Circuit Court had reversed the labor board and the board had applied to the U. S. Supreme Court for review.

The U. S. Supreme Court finalized the circuit court opinion by refusing to hear the case for review.

In commenting editorially on the action, the *Chicago Tribune* observed:

It is always risky to draw conclusions from the Supreme Court's refusal to grant an appeal because the Court does not publish the reasons for its refusal. We know, however, that in this case the Court was unanimous and perhaps in that fact there is ground for the hope that at last the law recognizes that union rights entail responsibilities.

The comment went on to point out that it is still everyone's right to work or not to work as he chooses, but it is not everyone's right to use the presence of a picket line as a valid excuse for breaking his own union's contractual obligations.

Phonevision

SUBSCRIPTION television is the answer to the financial problems of commercial television stations, most of which are losing money, according to H. C. Bonfig, vice president of the Zenith Radio Corporation, in a recent address before the Sales Executive Club of Los Angeles.

Bonfig said that if \$1 per movie were charged locally in Los Angeles by tele-

vision stations to subscription customers and the same patronage resulted as in the Chicago test of "Phonevision," the station showing a movie would net three times as much as the gross time charge of all Los Angeles television stations combined. The radio and television official added:

If only one per cent of your Los Angeles television set owners patronized a 90-minute Phonevision program at \$1, the station presenting it would net far more than the gross time charge of any Los Angeles television station.

The Zenith executive said that although there are seven television stations in Los Angeles, only one operated at a profit last year. With three more stations scheduled for the city itself and several others for surrounding cities, he asked:

Do you believe it possible for advertising revenues alone to support in Los Angeles and the immediate surrounding area the number of television stations that can, from the standpoint of technical availabilities, be operated here?

REA Movie

ON December 19th there was a movie showing for the Washington staff of REA of "The Telephone and the Farmer," REA's first cinema venture into the telephone field. The film is intended as a working tool for all those engaged in the REA program. It is principally suitable for showing to rural audiences. The picture is particularly designed for use by telephone co-operative organizing groups, at organization and sign-up meetings, but is also available for electric co-op annual meetings and other community gatherings, according to REA.

REA reports that with actual farm people in the cast, the new REA movie tells the story of how one community finds the answer to its rural telephone problem and how better service can benefit the community and the nation.



Financial News and Comment

By OWEN ELY

Tax-free Utility Dividends

IN the last issue of this department, under the caption "Are Utility Earnings Overstated?" we discussed at some length the difference between utility accounting methods used in reported earnings and balance sheets, *versus* those used in preparing income tax returns. An interesting new development along these lines is the recent announcement by Southwestern Public Service Company that part of its dividends should be considered tax-free¹ for stockholders because of these varying methods of bookkeeping.

Utility companies as a rule do not pay tax-free dividends, mining and investment trust stocks being best known in this category. However, two holding company stocks—Electric Bond and Share and United Corporation—have appeal for investors in high tax brackets, since book losses on their security holdings (dating from the 1920's) would, on the basis of certain assumptions, allow payment of tax-free dividends in each case for about thirty years.

A few operating utilities have been in this category in one or more of the past few years. In 1950 two operating utilities (Central Hudson Gas & Electric and Hartford Electric) reported a portion of their common stock dividends to be non-taxable. No doubt there would be more

operating utilities in this situation, particularly those paying out a relatively high proportion of their earnings, except for accumulation of surplus on a tax basis in prior years.

IT has been the custom for companies in this position (both utilities and others) to inform their stockholders of the amount of nontaxable dividends, but it appears that Southwestern Public Service is the first (at least in the utility field) to advise stockholders not only of the nontaxable amount, but also of the reason why a portion of the dividends are nontaxable.

On November 29th the company sent a notice to stockholders in which it was stated that on the basis of the Federal income tax return to be filed by the company for its fiscal year ended August 31,

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¹"Tax-free" means that the amount should be considered a return of capital, being credited against the cost of the stock.

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FINANCIAL NEWS AND COMMENT

1951, the three 28-cent dividends, paid March 1st, June 1st, and September 1st, were nontaxable to the extent of 40.63 per cent. However, since the return has not yet been examined by revenue agents, the percentage remains subject to final determination, though it was believed that any adjustment would not be substantial.

The company's budget for the fiscal year ending August 31, 1952, indicates that if dividends are continued at the present rate, about 20 per cent will be nontaxable. Accordingly, stockholders were advised to report 20 per cent of the December 1st dividends as nontaxable. In the fiscal years 1953-54, the company anticipates that the nontaxable portion of the dividends will be considerably greater than in 1952 if accelerated amortization is granted of a portion of the cost of new plant facilities. Applications with respect to over \$34,000,000 of such facilities (in the company's defense area) are now pending before DPA.

Chairman Nichols pointed out that the following items are treated differently for Federal income tax purposes than on the company's books: interest on construction (credit) is not treated as income for tax purposes; larger depreciation is allowed for income tax purposes; profit or loss on property sales is included in the income account for tax purposes, but not in the stockholders' report; and special tax deductions, such as 5-year amortization of defense facilities, which are allowed for tax purposes but not shown in stockholders' reports.

IN a supplemental memo he explained that the December 1, 1950, dividend was fully taxable because of the excess of taxable income over dividends paid in prior years. But for such excess, a considerable portion of the dividends in the 1949 and 1950 fiscal years would have been nontaxable, and the balance of such excess was applicable to the December 1, 1950, dividend. The amounts of such accumulated excess may differ substantially as between individual companies, but it seems reasonable to suppose that, barring

special and important transactions, those companies which have been longest in operation will have accumulated a larger excess, so that all their dividends may be taxable, even though current dividends exceed current taxable income.

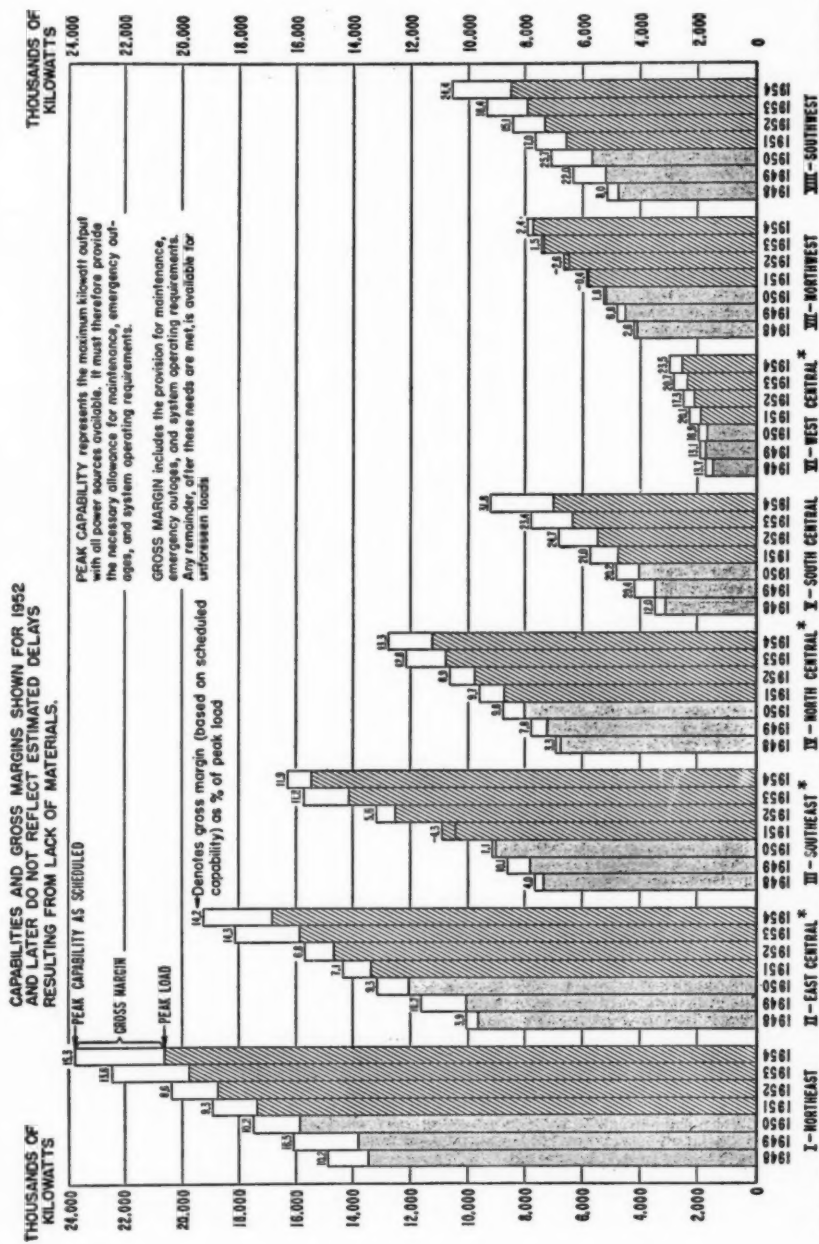
MR. Nichols also gave some general conclusions with respect to the entire electric utility industry for the year 1950, which we quote as follows:

For purposes of comparison, an examination has been made of statistics with respect to the electric utility industry for the calendar year 1950 as compiled by the Edison Electric Institute. It appears that

- (1) If the net income of the industry as per the books of the companies included in the compilation, were adjusted to reflect interest during construction in the same proportion of plant and property as in the case of the company;
- (2) such net income were also adjusted to reflect a special tax deduction for rapid amortization equivalent to the same proportion of net income as the company's deduction for this item in 1951; and
- (3) if the amount of common stock dividends paid by all such electric companies were increased to the same proportion of book net income, as so adjusted, as the proportion of the company's net income paid in common stock dividends in 1951,

about 23 per cent of the common stock dividends paid by the electric industry in 1950 would have been nontaxable, as compared with about 31 per cent in the case of the company, after eliminating (a) tax deductions of the company of a nonrecurring nature, and (b) any amount of excess of accumulated earnings for prior years over dividends paid, in both cases. (The amount of nonrecurring tax items is not reported for the industry.)

PUBLIC UTILITIES FORTNIGHTLY



Edison Electric Institute

FINANCIAL NEWS AND COMMENT

The difference between the above percentages is accounted for principally by the fact that it appears that the excess of depreciation allowed the company for tax purposes over depreciation charged to income on its books is considerably greater, on a proportionate basis, than for the electric industry as a whole.

It is understood that this depreciation differential will be reduced in the 1952 fiscal year, accounting for a considerable part of the decrease in Southwestern's nontaxable portion of its dividend from 31 per cent in 1951 to an estimated 20 per cent in 1952.

Because of the accumulated excess of taxable income over dividends for prior years, it seems doubtful whether any portion of the dividends of many utility operating companies will be nontaxable in the near future, although such prior excess with respect to some companies with high dividend payments may be nearly exhausted. However, the action of Southwestern Public Service officials in calling attention to these possibilities is a real service to the industry.

The Problem of Peak Loads

THE detailed text and tables of the tenth semiannual electric power survey of the Edison Electric Institute recently became available. (An advance press release was issued some weeks ago.)

As previously indicated, private and public utilities plan to increase their capacity from 75,000,000 kilowatts at the end of 1951 to 104,000,000 kilowatts at the end of 1954. However, unless critical materials in sufficient amounts are made available to the manufacturers and fabricators of generating and miscellaneous equipment, some 8,000,000 kilowatts of the 29,000,000-kilowatt increase may be deferred in schedule reducing estimated 1954 capacity to 96,000,000 kilowatts. The now anticipated peak load in 1954 is 90,000,000 kilowatts, according to the EEI survey. Thus the margin of 1954

capability over peak load would be reduced from 15.5 per cent to 6.7 per cent.

Two government bureaus are also interested in trying to gauge the industry's power supply program as compared with future power demands. The Federal Power Commission, in its quarterly bulletins "Electric Utility System Loads and Capacity," makes such estimates, the latest available being for June (published in August). DEPA also studies power supply requirements, with the assigned duty of documenting and presenting the power program to the other mobilization agencies. In addition, DEPA acts as claimant agent for the electric utility companies in getting allocations of control materials.

FIGURES used herein, which are accredited to DEPA, must be understood to be entirely unofficial, preliminary, and subject to subsequent revision. As a matter of fact, over-all figures recently released by DEPA Administrator Fairman (see page 37) might be compared, with the following unofficial estimates, as being somewhat in the nature of such revision. The national peak loads (assuming median hydro conditions) as estimated by the three agencies, in millions of kilowatts, follow:

Year End	EEI	DEPA*	FPC*
Actual 1950	61.6	—	61.7
Estimated 1951	69.5	69.3	69.5
1952	77.3	77.6	76.2
1953	84.5	84.9	82.5
1954	90.1	90.5	87.8

*Preliminary and subject to revision.

The FPC estimates appear to lag behind the other two somewhat, but possibly the figures may not be as up to date as the other two estimates.

The capability² figures, based on sched-

² Dependable capacity, which is greater than installed capacity and also well above "net assured capacity," the latter making allowance for "required capacity reserves." National figures for net assured capacity do not appear to be readily available except for June 30, 1951, when the figure was 64,600,000 kilowatts compared with 69,500,000 dependable capacity and 59,900,000 peak load.

PUBLIC UTILITIES FORTNIGHTLY

uled construction programs, differ more widely:

Year End	EEI	DEPA*	FPC*
Actual 1950	67.9	—	—
Estimated 1951	74.9	74.4	73.3
1952	84.2	84.2	82.7
1953	96.0	96.3	92.4
1954	104.1	104.5	95.5

*Preliminary and subject to revision.

DEPA also adjusts its figures for capacity which may be out of service for maintenance and emergency repairs, or for other reasons. Instead of deducting this from capability or dependable capacity to obtain "net assured capacity" (as the FPC does), DEPA adds this reserve to the estimated peak load figures to obtain "capacity requirements." These figures compare with capabilities as follows, in the preliminary report:

	Capacity Require- ments	Capa- bilities	Defi- ciency	Sur- plus
December, 1951	76.0	74.4	1.6	—
" 1952	85.6	84.2	1.4	—
" 1953	94.6	96.3	—	1.7
" 1954	101.0	104.5	—	3.5

It is not clear why a deficiency should be indicated by DEPA for 1951. There have been no "brownouts" as yet, and even in the Northwest apparently no restrictions are planned on special Christmas lighting (although without the recent heavy rainfall there would have been a sizable loss of aluminum production). The EEI estimates a 7.8 per cent margin at December 31, 1951, available for maintenance and emergency outages plus any unforeseen loads. Unless the utilities get into trouble around the holidays, it looks as though the DEPA estimated reserves are too high. There may of course have been some scattered industrial shortages (in the Pittsburgh area and in the Southeast) and voltage may be reduced here and there during the holidays, but by and large it appears that the power supply is adequate this year.

It appears possible that the FPC has not given as much credit for potential overcapacity in new steam-generating

plants as have the two other agencies. Also, for the year 1954 it shows scheduled increases in dependable capacity of only 3,100,000 as compared with 8,100,000 for EEI and 8,200,000 for DEPA. Presumably the 1954 figures would now be revised upward, on the basis of later plans. A recent instance of an important change in plan is the announcement that Public Service Electric & Gas Company has raised its projected construction expenditures to \$200,000,000 for the years 1951-53, compared with the \$100,000,000 previously estimated for 1951-54.

The EEI 28-page survey devotes over half its pages to the status of production of heavy electric power equipment. The chart on page 44 shows EEI findings with respect to capacity *versus* peak loads for the eight individual regions of the United States, the Northwest making the poorest showing. (The Southeast makes a bad showing for the current year only.)

A 4-man advisory committee, headed by Vice President E. W. Morehouse of General Public Utilities, was appointed several months ago by Manly Fleischmann of DPA to advise DEPA with respect to power load requirements in the defense mobilization period, and the construction program for meeting them. This committee's report, which may contain additional valuable data, may be released in the near future.

The Earnings Outlook for Electric Utilities

ELECTRIC utility earnings have shown an irregular downward trend this year, particularly in the months of April-July when taxes were being adjusted upward. However, in August and September the changes made this year were apparently matched by tax revisions made in the summer of 1950, so that net income for these two months showed virtually no change as compared with last year's figures. Some utilities, however, deferred adjusting to a 52 per cent tax rate (for the months beginning April 1st) until the tax law was finally enacted. This meant that much of the retroactive ad-

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justment went into the month of October. This seems to be reflected in the preliminary summary for October (FPC press release No. 5776 covering all class A and B electric utilities) which shows net income for that month to be 9.7 per cent below last year.

The point has previously been stressed in this department that share earnings figures would show a decline of about five percentage points more than the decline in net income, due to the issuance of large amounts of common stock this year. In the table "Financial Data on Electric



CURRENT UTILITY STATISTICS AND RATIOS

	Unit Cost	Latest Month	Latest 12 Mos.	Per Cent Latest Month	Increase Latest 12 Mos.
Operating Statistics (October)					
Output KWH—Total	Bill. KWH	32.4	364.7	11%	14%
Hydro-generated ..	"	7.5	—	2	—
Steam-generated ..	"	24.9	—	14	—
Capacity	Mill. KW	74.7	—	11	—
Peak Load (August)	"	61.8	—	12	—
Fuel Use: Coal	Mill. Tons	9.6	—	13	—
Gas	Mill. MCF	72.0	—	17	—
Oil	Mill. bbls.	5.4	—	D11	—
Coal Stocks	Mill. tons	39.3	—	25	—
Customers, Sales, Revenues, and Plant (September)					
KWH Sales—Residential	Bill. KWH	4.5	55	16%	14%
Commercial	"	3.9	43	11	10
Industrial	"	11.4	132	8	18
Total, Incl. Misc. ..	"	26.3	308	7	13
Customers—Residential	Mill.	29.7	—	4	—
Commercial	"	4.3	—	1	—
Industrial	"	.6	—	3	—
Total	"	36.7	—	4	—
Income Account—Summary (September)					
Revenues—Residential	Mill. \$	133	1,597	13%	12%
Commercial	"	105	1,182	9	8
Industrial	"	127	1,454	9	15
Total, Inc. Misc. Sales ..	"	404	4,674	10	11
Sales to Other Utilities ..	"	34	389	3	5
Misc. Income	"	10	202	D6	4
Expenditures					
Fuel	"	73	835	13%	14%
Labor	"	84	992	9	10
Misc. Expenses	"	63	784	D2	3
Depreciation	"	40	465	10	10
Taxes	"	107	1,089	18	23
Interest	"	24	274	8	7
Amortization, etc.	"	1	22	D48	D2
Net Income	"	57	803	1	D2
Preferred Div. (Est.)	"	10	117	4	6
Bal. for Common Stock (Est.) ..	"	47	686	—	D4
Common Dividends (Est.)	"	44	532	8	8
Balance to Surplus (Est.)	"	3	154	—	D2
Electric Utility Plant (September)					
Reserve for Deprec. and Amort.	"	\$20,181	—	9%	—
Net Electric Utility Plant	"	4,143	—	8	—
	"	16,038	—	10	—
Life Insurance Investments (January 1st-December 1st)					
Utility Bonds	"	—	632	—	D46%
Utility Stocks	"	—	58	—	D65
Total	"	—	690	—	D49
% of All Investments	"	—	7%	—	D61

D—Decrease.

PUBLIC UTILITIES FORTNIGHTLY

Utility Stocks," which appeared in the previous issue, page 903, it was shown that the dividend pay-out now averages 77 per cent. This would compare with an average of about 70 per cent in 1950, reflecting a decrease in common stock share earnings of about 10 per cent. However, the pay-out percentage may have been increased slightly by the fact that there have been a few dividend increases this year (and apparently no reductions). On the other hand, since this table included only a very small proportion of October returns, the final pay-out figure may be above 77 per cent.

SINCE most utilities apparently have no objection to a higher rate of pay-out, investors have not yet been penalized except through the reduced margin of safety. The firm trend of utility stock prices indicates that investors have not been alarmed by the downward trend of earnings, and that they are principally interested in the maintenance of dividend rates. The substantial amount of equity financing during the year has been quite fully offset by the demand for stocks.

Have the electric utilities now "seen the worst" so far as the effects of higher taxes on earnings is concerned? There seems to be good reason to believe that this is the case. While exact figures for the total amount of the tax on electrical energy are not available, figures for a large number of individual companies have now been obtained, showing the savings per share of common stock which will be available in the calendar year 1952 from the omission of this tax. A majority of utility companies in the twelve months ended September 30th accrued income

taxes at the rate of 48½ per cent (42 per cent for the last quarter of 1950, 48 per cent in the first quarter of 1951, and 52 per cent in the second and third quarters of 1951). Some accrual rates were a little above or below this figure, and a few charged as high as 50½ per cent (the correct rate for the calendar year 1951) but the average seemed to approximate 48½. Thus if the rate were adjusted to 52 per cent (as though the act were in full effect for the twelve months ended September) share earnings would have been reduced by some 5-10 per cent for most companies.

Canadian Utilities Now Seek U. S. Funds

MONEY market conditions this year in Canada have not been unlike those in the U. S. except that the situation has been more stringent and the bond market decline more severe north of the border. A long-term Canadian government bond compares with a U. S. issue of similar term as shown in table below.

As might be expected from this comparison, Canadian utility bonds sell at higher yields than U. S. utility bonds. As of October 15th the average yield on six Canadian bonds (rated Baa by Moody) was 3.73 per cent compared with Moody's average yield for U. S. A.-rated bonds of 3.15 per cent, a differential of .58 per cent. (Comparison is made with Moody's average for the next higher rating because Moody rates Canadian issues payable in Canadian funds at least one rating lower than equivalent issue payable in U. S. funds.)

	Canada 3s Due 1961-66	U. S. Treas. 2½s Due 1963-68	Differential
1946 Annual Average	2.63%	2.15%	.48%
1947 " "	2.59	2.20	.39
1948 " "	2.93	2.41	.52
1949 " "	2.85	2.24	.61
1950 " "	2.77	2.24	.53
1951 January-June Average ...	3.14	2.52	.62
November 30th	3.41	2.69	.72

FINANCIAL NEWS AND COMMENT

RECENT FINANCIAL DATA ON GAS COMPANY STOCKS

	12/11/51 Price About	Indicated Dividend Rate	Approx. Yield	Share Cur. Period	Earnings [†] % In- crease	Freq. Reports [‡]	Price- Earnings Ratio	Div. Pay- out
Producers and Pipeline Companies								
O Commonwealth Gas	12	\$.25	2.1%	\$.74d	19%	a	16.2	20
S Mississippi Riv. Fuel	35	2.20	6.3	3.31s	13	qy	10.6	60
O Missouri-Kans. P.L.	60	1.60	2.7	1.66d	D62	a	—	96
S Southern Nat. Gas	49	2.50	5.1	4.11s	17	qy	11.9	61
O Southwest Nat. Gas	7	.20	2.9	.45s	61	bq	—	44
O Tenn. Gas Trans.	26	1.40	5.4	1.79s	D3	qy	14.5	78
O Texas East. Trans.	18	1.00	5.6	1.93d	30	a	9.3	52
O Texas Gas Trans.	18	—	—	1.97s	30	a	9.1	—
Averages			4.3%				11.9	
Integrated Companies								
S American Natural Gas	34	1.80	5.3%	2.66s	48%	bq	12.8	60
S Columbia Gas System	15½	.90	5.8	1.20s	4	qy	12.9	75
S Consol. Nat. Gas	57	2.50	4.4	5.58s	19	qy	10.2	45
S El Paso Nat. Gas	36	1.60	4.4	3.29s	122	my	10.9	49
S Equitable Gas	21	1.30	6.2	1.82s	D15	bq	11.5	71
O Interstate Nat. Gas	35	2.50	7.1	3.25d	30	a	10.8	77
O Kansas-Neb. Nat. Gas	23	1.24	5.4	1.95d	20	qc	11.8	64
C Lone Star Gas	25	1.40	5.6	1.72s	D20	mqy	14.5	81
S Montana-Dakota Utils.	25	.90	3.6	.79s	D23	qy	—	114
O Mountain Fuel Supply	19	.70	3.7	.99d	9	a	19.2	61
C National Fuel Gas	14½	.80	5.5	1.21s	1	bq	12.0	66
O National Gas & Oil	8	.40	5.0	1.04d	68	a	7.7	38
S Northern Nat. Gas	36	1.80	5.0	1.62s	D26	qy	22.2	111
C Oklahoma Nat. Gas	36	2.00	5.6	2.93o	6	b	12.3	68
C Pacific Pub. Serv.	15	1.00	6.7	2.23d	7	qc	6.7	45
S Panhandle East. P.L.	59	2.00	3.4	2.86je	11	qy	20.6	70
S Peoples Gas Lt. & Coke....	128	6.00	4.7	8.36s	D17	qy	15.3	72
O Southern Union Gas	23	.80	3.5	1.51d	13	qc	15.2	53
S United Gas	24	1.00	4.2	1.52s	9	qy	15.8	66
Averages			5.0%				13.5	
Retail Distributors								
O Atlanta Gas Light	22	1.20	5.5%	2.00je	D10%	bq	11.0	60
C Bridgeport Gas	23	1.40	6.1	1.47d	D22	a	15.6	95
O Brockton Gas Lt.	9	.56	6.2	.58d	D2	a	15.5	97
S Brooklyn Union Gas	49	3.30	6.7	4.16s	14	qc	11.8	72
O Central El. & Gas	10½	.80	7.6	.95s	D11	qy	11.1	84
C Consol. Gas Util.	11	.75	6.8	1.56ju	5	qy	7.1	48
O Hartford Gas	36	2.00	5.6	2.68d	—	a	13.4	75
O Haverhill Gas Lt.	34½	1.80	5.2	2.04s	3	my	16.9	88
O Houston Nat. Gas	19	.80	4.2	1.49ju	41	a	12.8	54
O Indiana Gas & Water	22	1.40	6.4	1.96o	1	c	11.2	71
O Jacksonville Gas	34	1.40	4.1	4.97d	4	a	6.8	28
C Kings County Ltg.	8	.40	5.0	.45d	D30	qc	17.8	89
S Laclede Gas	8	.50	6.2	.89s	11	b	9.0	56
O Michigan Gas Utils.	13	—	—	1.11s	54	qy	11.7	—
O Minneapolis Gas	20	1.05	5.3	1.22s	15	qy	16.4	86
O Mobile Gas Service	30	1.60	5.3	2.82s	D17	bq	10.6	57
O New Haven Gas Lt.	26	1.60	6.2	1.92d	13	a	13.5	83
S Pacific Lighting	52	3.00	5.8	3.53s	D16	bq	14.7	85
O Providence Gas	9	.40	4.4	.57d	2	a	15.8	88
C Rio Grande Valley Gas ...	2	.12	6.0	.20je	10	qy	10.0	60
O Rockland Gas	35	1.70	4.9	4.63d	5	a	7.6	37
O Seattle Gas	16	.60	3.8	1.36s	4	qy	11.8	44
O So. Jersey Gas	18	.50	2.8	.53d	29	qc	—	—
O Springfield Gas Light	34	1.60	4.7	1.64d	—	—	20.7	98
S United Gas Improv.	30	1.55	5.2	1.98s	D8	qy	15.2	78
S Wash. Gas Light	25	1.50	6.0	2.54s	10	bq	9.8	59
Averages			5.4%				12.7	

PUBLIC UTILITIES FORTNIGHTLY

RECENT FINANCIAL DATA ON TELEPHONE, TRANSIT, AND WATER COMPANIES

	12/11/51 Price About	Indicated Dividend Rate	Approx. Yield	Share Cur. Period	Earnings# % In- crease* Freq. of Reports**	Price- Earnings Ratio	Div. Pay- out
Communications Companies							
<i>Bell System</i>							
S Amer. Tel. & Tel. (Cons.)	159	\$9.00	5.7%	\$11.59ag	19%	mcy	12.5 71
O Cinn. & Sub. Bell Tel.	75	4.50	6.0	4.59d	D4	qc	16.3 98
C Mountain Sts. T. & T.	104	6.00	5.8	6.48s	D8	qy	16.0 93
C New England Tel.	108	8.00	7.4	7.33s	2	qy	14.7 109
S Pacific Tel. & Tel.	108	7.00	6.5	8.86ag	35	qy	12.2 79
O So. New Eng. Tel.	34	1.80	5.3	2.12d	18	qc	16.0 85
Averages			6.1%				14.6
<i>Independents</i>							
O Central Telephone	12	\$.80	6.7%	\$1.32s	35%	qy	9.1 61
S General Telephone	30	2.00	6.7	2.57o	58	qy	11.7 78
C Peninsular Tel.	40	2.50	6.3	3.77s	D10	c	10.6 66
O Rochester Tel.	12	.80	6.7	1.52d	69	qc	7.9 53
Transit Companies							
O Chicago SS. & S.B.	11	\$1.00	9.1%	\$1.67d	84%	qc	6.6 60
O Chicago No. Sh. & Mlke..	5½	—	—	.46d	—	a	12.0 —
O Cinn. St. Ry.	5	.30	6.0	.19d	D77	a	— 158
O Dallas Ry. & Term.	13	1.40	10.8	1.76d	27	a	7.4 80
S Greyhound Corp.	11	1.00	9.1	1.19s	3	qy	9.2 84
O Los Angeles Transit	5	.50	10.0	.51d	D39	qc	9.8 98
S Nat. City Lines	10	1.00	10.0	1.90d	9	qc	5.3 53
O St. Louis P.S. A	8	.50	6.3	.41d	D15	qc	— 122
O Syracuse Transit	19	2.00	10.5	2.89d	366	a	6.6 69
O United Transit	3	—	—	.68d	24	qc	4.4 —
Averages			9.0%				7.7
Water Companies							
<i>Holding Companies</i>							
S Amer. Water Works	8	\$.50	6.3%	\$.90s	D11%	qy	8.9 56
O N.Y. Water Service	29	.80	2.8	1.92s	18	qy	15.1 42
<i>Operating Companies</i>							
O Bridgeport Hydraulic	30	1.60	5.3	1.45d	D8	a	20.7 110
O Calif. Water Serv.	27	2.00	7.4	2.18s	D13	b	12.4 92
O Elizabethtown Water	100	6.00	6.0	6.96d	D17	a	14.4 86
S Hackensack Water	31	1.70	5.5	2.73d	2	qc	11.4 62
O Jamaica Water Supply ...	22	1.50	6.8	2.09s	19	qy	10.5 72
O New Haven Water	54	3.00	5.6	3.25d	D6	a	16.6 92
O Ohio Water Service	21	1.50	7.1	1.94s	10	bq	10.8 77
O Phila. & Sub. Water	33	.80	2.4	3.06d	D12	a	10.8 26
O Plainfield Union Wt.	48	3.00	6.3	4.16d	D18	q	11.5 72
O San Jose Water	32	2.00	6.3	2.47o	D14	b	13.0 81
O Scranton-Spring Brook ...	14	.90	6.4	.94s	D18	qy	14.9 96
O Southern Cal. Water	8	.65	8.1	.83m	8	qy	9.6 78
O Stamford Water	52	2.00	3.8	2.10d	D11	a	24.8 95
O West Va. Wt. Service	22	1.20	5.5	1.37s	12	bq	16.1 88
Averages			5.9%				14.1

D—Deficit. C—Curb exchange. O—Over-counter or out-of-town exchange. S—New York Stock Exchange. *Increase in balance for common stock. #Earnings are calculated on present number of shares outstanding, except as otherwise indicated. PF—Pro forma. d—December, 1950. m—March. my—May. je—June. ju—July. ag—August. s—September. o—October. NC—Not comparable. **The following symbols are used in this column to indicate the periods and frequency of earnings reports: a—Calendar year only. b—Twelve months only (reported monthly). bq—Twelve months only (reported quarterly). c—Cumulative months and twelve months. mc—Latest month and cumulative months. mcy—Latest month, cumulative months, and twelve months. mqy—Latest month, three months, and twelve months. my—Latest month and latest twelve months. q—Latest quarter only. qc—Quarters cumulatively. qy—Latest quarter plus last twelve months.



What Others Think



Transit's Tax Burden

THE transit financial problem came in for more comment recently in the November issue of the magazine *Bus Transportation*. The author, W. Marshall Dale, president, Indianapolis Railways, in discussing the subject, "What Can We Do about Transit's Tax Burden?" stated that the investors in the transit business are getting tired of playing Santa Claus to a lot of people, including the tax collector. He declared that if the people of the cities are going to expect the companies to get them to and from work every day, they must start thinking hard about how the transit companies can maintain service below the cost of producing it. He stated:

Further increases in the fare structure produce more revenue but likewise scare a lot of the business away, and the net result is unchanged. We in the business should realize that we will eventually reach a point beyond which we cannot raise our fares without driving away those short-haul passengers that we have depended upon for years.

He reviewed the possibility of tax relief for the transit industry. He said:

I think it is not unreasonable for transit operators to look for and expect relief from the imposed burden of state and municipal taxes. This relief must come through the offices of the local tax authorities and recognition of our state legislatures, and why not? Airports throughout the country with few exceptions offer a sound precedent in municipal aid to air transportation. And the same state and city officials who made possible these benefits to the air transport companies refuse to consider measures to sub-

sidize surface transportation upon which a vastly greater number depend.

DALE asserted that the industry may have to come out in the open with a strong case for tax relief. He further stated that he believed that the widespread publicity given recent rate increase requests by companies before their respective commissions was a good thing and went a long way toward giving the public an understanding of the fact that wage increases are followed by fare increases. The transit official supported all kinds of publicity, "whether good or bad," as developing a new attitude toward local transit.

He then discussed the problems of his own company and contrasted them with the problems of the transit industry generally:

Are our problems at Indianapolis comparable to problems of the transit industry? Yes, generally speaking. We are not making any money. We are not earning the allowable return on the capital invested. We are using depreciation reserves intended to preserve property to pay operating expenses. Aside from financial complications and problems, our operations at Indianapolis have been complicated by the city's phenomenal industrial growth during the past ten years. To further complicate the transit operation, this industrial development is not limited to any one particular segment of our city. Such a situation requires new equipment to provide adequate transit facilities.

Dale recalled that during the war years gasoline and tire shortages provided a temporary, brief, and illusive boom in the transit business. The increased number

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of riders handled during wartime created an added strain upon the rolling stock already grown tired through years of overwork. No program or provision for the replacement of aging equipment had been made. The problem of providing service could only be met by investment in new and more modern vehicles.

THE Indianapolis transit official then described the money problem of his company and how it was substantially overcome after several appearances before the state public service commission. He said:

The question of where the money was coming from to buy new equipment was our number one headache. Rising costs and declining patronage continued to pile deficit on deficit following each month's operating experience. Substantial losses for the years 1948 and 1949 did not leave us with a very presentable statement to hand to the bankers, so we focused our attention on a strict program of economy in every department of the company without a serious impairment of service. We exhausted every effort to improve service within the existing fare structure without cutting the meat and bread out of our schedules.

He pointed out that the company cut costs considerably and made helpful and permanent changes in operating practices. Even after these changes he maintained that something had to be done about increasing the revenue. He then described the manner in which the fare increases were gained:

We were almost continuously before our state public service commission for a period of two years. During this period the fares were increased three times from the original 10-cent fare with a free transfer to the final base fare of 15 cents, two tokens for 25 cents, and a 2-cent transfer. Having thus partially set the stage to erase some of the red ink, we approached a group of five Indianapolis bankers for a loan of \$1,800,000. We felt that by dealing

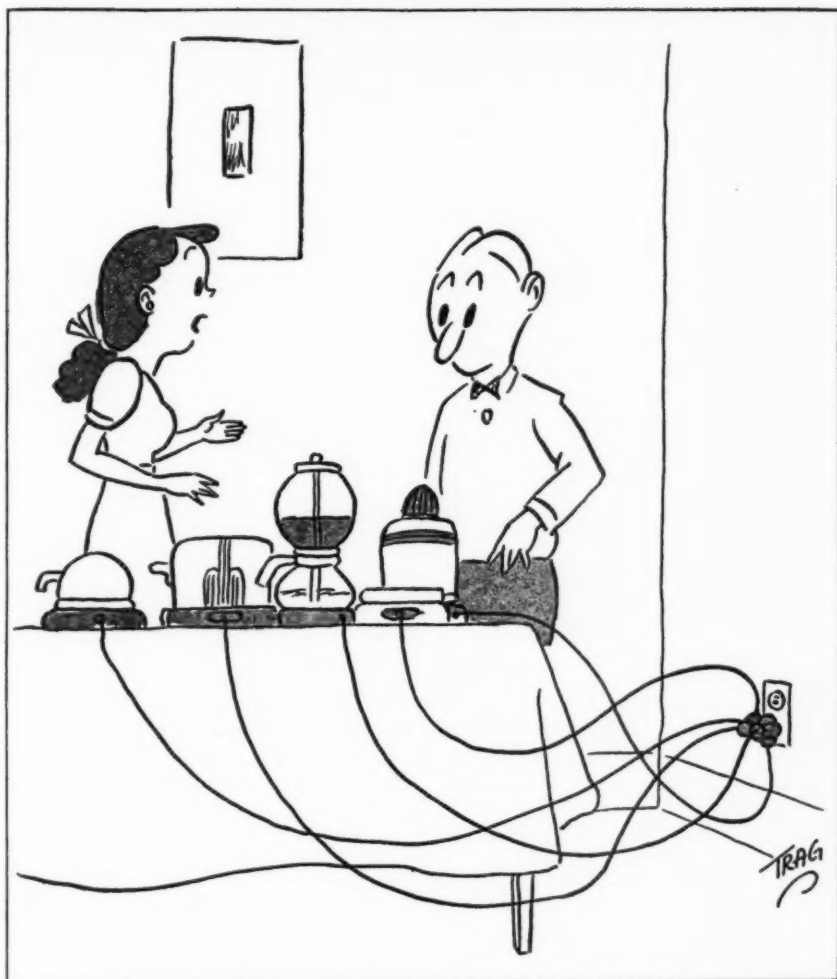
with local bankers we could go a long way toward making our businessmen better realize our problems and become more sympathetic with our efforts in meeting them. Financial arrangements were negotiated, enabling us to purchase 53 trolley coaches and 62 busses. In these negotiations we had the support of the public and of our newspapers. The papers took occasion to comment editorially upon the fact that our Indianapolis banks evidently recognized our efforts to improve our service and had indicated confidence in what to expect in the way of results.

DALE observed that because of the lag in financing, the company is still awaiting delivery on some of its new equipment. He also noted that another step in attacking the over-all problem was a change in key personnel whereby new officials were brought into the organization. He counted also as one of the achievements tending toward the smoother operation of the company, a municipal program of traffic control. The city of Indianapolis has inaugurated a "one-way street" program which, according to Dale, has been helpful.

The over-all traffic problem, Dale maintained, is still unsolved. He commented:

The installation of additional parking meters, as is the case in many cities and towns, has turned the streets in our downtown business section into huge parking lanes where potential transit riders can now drive their automobiles and park for 20 to 30 cents per day. Parking meters are certainly not the answer to a city's traffic problem. Until the principal streets, particularly in the congested business area, are restored to the use for which they are intended (the free movement of traffic and not for the dead storage of private automobiles) and a better understanding is gained by the public on how transit can relieve traffic congestion by moving a greater number of people within one

WHAT OTHERS THINK



"I CAN'T UNDERSTAND WHY WE BLOW SO MANY FUSES!"

vehicle, it probably will not be completely solved.

Dale closed with a discussion of the tax problem. He said that if it weren't for all the taxes levied by Federal, state, city, and county agencies, many transit companies now operating at a loss would be able to show a reasonable profit.

Taxes paid by Dale's company last year were nearly a half-million dollars

(no Federal income tax) on operating revenues of \$8,300,000. The fares collected from the first 12,800 passengers carried every day must be paid out in some form of tax. He said that there is no reasonable excuse for the multiplicity of taxes imposed upon the transit industry. Some forms of taxes continue from the days when the streetcar companies were considered a monopoly and a target

PUBLIC UTILITIES FORTNIGHTLY

for all forms of tax levies. The transit industry, of course, has no monopoly because of the competition of private automobiles.

Dale concluded with a recommenda-

tion that the transit companies be taken out of the "tax collecting business," not only by eliminating many forms of taxes levied, but also by reducing the amount.

—D. T. B.

Interior's United Western Plan

THE Bureau of Reclamation's preliminary report on the United Western Plan to divert water from the Pacific Northwest is reported to be awaiting Secretary of the Interior Chapman's approval. The project, estimated at nearly \$4 billion already has drawn comment from a Congressman in the "beneficiary" state of California. He is Norris Poulson, Republican, of Los Angeles.

Representative Poulson recently reported from California to his congressional colleagues that "no southern California water official is supporting the Reclamation Bureau scheme to move water from the northwestern states into California."

Following a series of conferences with officers and engineers of the largest water systems in the Los Angeles area, Poulson labeled the mysterious United Western report of the Reclamation Bureau "another attempt to sell southern California down the river." Poulson stated:

Details of the latest scheme dreamed up by the Bureau of Reclamation to substitute water from the Northwest for Colorado river water so far have been kept from members of Congress. However, press reports indicate that the plan is even more fantastic than

the Central Arizona project, which bureau planners have been supporting in Congress.

Poulson added:

Taxpayers of America will hit the ceiling when they learn that the United Western report purportedly recommends spending four or five billion dollars of public money to pipe in a water supply to southern California.

POULSON said he had talked with Joseph Jensen, chairman of the Metropolitan Water District board of directors, and other leading water officials about the new bureau plan. Poulson said:

Not one of the authorities who are responsible for water service to our cities and farm areas of southern California is supporting this wild proposal of the Reclamation Bureau. It is a reckless and desperate attempt by Reclamation Bureau officials to get more water for the Central Arizona project without regard to what it would cost the nation's taxpayers.

Other Californians have indicated that their comments on the project will be soon forthcoming.

EEI Issues New Question Book

AMERICA's electric power supply and the industry providing it are surveyed in "I Want to Know About the Electric Industry," a booklet recently published in its fourth annual edition by the Edison Electric Institute. Outlining

electricity's progress in the United States through peace and war, the 1951-52 edition also presents the industry's program for preserving an adequate power supply in the critical years ahead.

Among the 27 questions asked and an-

WHAT OTHERS THINK

swered in the new booklet, "What About the Electric Industry in a National Emergency?" and "What About the Electric Industry's Expansion Program?" have particular urgency at this time.

The booklet points out that electricity generation in 1951 will be twice that of 1942, the first full year of World War II, but it also makes clear that unless material shortages hampering the industry's expansion plans are remedied, there may be power shortages in some areas in the next two or three years.

Other questions and answers concern the position the U. S. holds in world production of electricity and the use of electric power in industry, agriculture, and in the home. Covering various aspects of electric industry operation, the booklet utilizes national figures in dealing with sales, income, expenses, capitalization, ownership, employees, fuel use, and offers percentage comparisons of the relative importance in the industry of the business-managed electric companies and the various government

agencies dealing in electric power.

Factual in tone and treatment, but designed with an eye to easy reading and ready reference, "I Want to Know About the Electric Industry" makes use of a concise table-and-text style, drawing its data from authoritative sources such as the EEI statistical publications and publications of the Federal Power Commission.

THE booklet's value as a handy source for those interested in reading or writing about the electric industry has been demonstrated by the previous three editions, and copies have found wide circulation among electric company employees and others.

In its 1951-52 edition, "I Want to Know About the Electric Industry" appears as an informational aid whose application may have considerable importance in a period which calls for increased public understanding of the electric industry's vital responsibilities and the problems being faced in their fulfillment.

Notes on Recent Publications

MAINE'S FERNALD LAW. The central tenet of Maine's power policy is the Fernald Law, enacted in 1909. It prohibits corporations from transmitting hydroelectric power to out-of-state consumers. It was enacted in an attempt to induce industries to come to Maine for reasonably priced power. But industry did not respond as originally expected. This policy is examined in a political and legal history written by one of Maine's native-born sons and Bowdoin College graduate. In scholarly style he examines Maine's power policy, its growth and the legislation passed to implement it. Considerable attention is given to the economic aspects of the policy. The conservatism and isolationism reflected in this policy have had regional and national repercussions. It sprang from the localism that has characterized early New England and has been supported generally throughout the state. In 1929 the private utilities attempted to have the transmission ban lifted. The electorate flatly refused to permit it. Their vote was peculiarly isolationist and anti-corporation. To the question, "Can a single state retain strict economic isolationism in

a world of increased planning?" the author answers in the negative. He suggests regionalism as a compromise between the conflicting state and Federal views on what should be done. **THE POWER POLICY OF MAINE**, by Lincoln Smith, published by the University of California Press (Berkeley 4, California) 1951, 290 pages of text, 48 pages of notes and bibliography. Price, \$5.

COAL FACTS. Authentic, informative, interesting facts and figures about an industry vital to the mobilization program—bituminous coal—are being widely distributed for the fourth consecutive year by the Bituminous Coal Institute, public relations department of the National Coal Association, in the form of BCI's "1951 Bituminous Coal Annual," a 204-page volume which follows the general pattern of its three predecessors, with many photos, charts, and graphics printed in color.

Ralph C. Mulligan, BCI's director of public relations, describes this year's book as "much more than a dry compendium of facts and figures, much more than simply a handbook for statisticians and economists." **1951 BITUMINOUS COAL ANNUAL.** The Bituminous Coal Institute, Washington, D. C.



The March of Events

In General

Canadian Gas Plan Offered

A RECIPROCAL exchange of natural gas between Alberta and the United States was proposed by R. R. Herring, of Houston, Texas, vice president of Prairie Pipelines, Ltd., who spoke last month before the Alberta Petroleum and Natural Gas Conservation Board. The board was reported to be hearing six applications for permits to export Alberta gas.

Under the proposal, 200,000,000 cubic feet of gas a day from southern Alberta would be exported to the Pacific Northwest, and in exchange 250,000,000 cubic

feet of gas a day from the Texas area would be delivered at Windsor, Ontario, for distribution in Ontario and Quebec.

Herring said that would be the most economical method of supplying natural gas to Ontario and Quebec and would save about \$5,000,000 a year to consumers in the two provinces.

Herring gave figures to show that the cost of the project to export Alberta gas to the Pacific Northwest would be \$85,528,000. He estimated that gas could be sold to the distributors at the various markets, including Vancouver, at a price of 33 to 34 cents per thousand cubic feet.

California

Telephone Rates Boosted

THE state public utilities commission recently granted the Citizens Utilities Company a 15 per cent boost in telephone rates for eight northern counties.

The increase also makes a \$125,000 annual interim rate boost in effect since May 1st, bringing the total permanent increase to \$233,300 annually. The overall gain is 35 per cent.

The company claims its present rates provide less than half the rate of return

necessary to attract capital for its \$800,000 1951 construction program. The new rates will become effective December 20th, except new basic charges in those exchanges where construction is under way.

Examples of rate increases include raises in the Alturas, Modoc county, and Susanville, Lassen county, residential one-party monthly rate from \$5.25 to \$5.75 and business one-party line from \$7.75 to \$9.

District of Columbia

Gas Rate Hearing Set

THE District of Columbia Public Utilities Commission recently scheduled a public hearing January 9th on the Washington Gas Light Company's re-

quest for a 15 per cent rate increase.

The company has cited an expected 40 per cent increase in the price it pays for gas as the chief reason for needing higher retail rates. Part of this wholesale

THE MARCH OF EVENTS

price increase is now in effect, but none of it has been given final approval by the Federal Power Commission. The company promised a refund to its customers if the wholesale increase is less than expected.

The company's request would add \$2 to the monthly bill of the average space-

heating customer, it estimated, and 59 cents to the bill of the average customer who uses gas only for cooking. The company is seeking higher rates only in the District, not in Maryland or Virginia, where higher rates are now in effect. It estimates the proposed rates would yield an additional \$2,345,000 in 1952.

Indiana

REMC Planning Generating Plants

A \$90,000,000 "super" co-operative rural electric generating system, which may be financed in part with public funds, was recently reported to have passed the drawing-board stage. It would tie together 43 Rural Electric Membership Corporation co-ops in Indiana now receiving power at wholesale rates from private utilities and municipalities.

One phase of the system, costing \$25,-

000,000, may be financed entirely by a loan from the Rural Electrification Administration, headed by Claude Wickard. The other system, with a price tag of approximately \$65,000,000, may be financed in part with an REA loan and partly with private funds.

The two systems are: (1) the Hoosier Energy Co-operative, Inc., to be located in southwestern Indiana; (2) the proposed Indiana Statewide Electric Co-operative, with power plants on both the east and west sides of the state.

Kentucky

Would Bar Rate Raises without Hearings

A PROGRAM designed to stop public utilities from raising their rates without a hearing on their cases was adopted early last month by the Kentucky Municipal League directors, meeting in Frankfort.

The directors also went on record as favoring a larger legislative appropriation for the state public service commission to enable it to increase its staff for

inquiry into public utility rate cases.

The public utility rate bill would provide that when a public utility petition for higher rates is protested it cannot put the raise into effect until the commission has heard its testimony and that of protestants.

Under present law a utility can post bond approved by the commission as high enough to guarantee refunds if the rate case is finally lost and then go ahead with its higher rates pending a final ruling.

Massachusetts

Utility Bills Filed

ONE member of the 5-man state department of public utilities would be required to be a representative of organized labor under terms of a bill filed early this month for consideration by the

1952 state legislature. The proposal was filed for the Massachusetts Federation of Labor by Representative Piemonte, Cambridge Democrat.

Another bill filed for legislative consideration would give the state depart-

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ment of public utilities supervision of water districts. Rates and charges would have to be submitted for approval.

Companies controlling natural gas pipelines would be required under terms of another bill to make daily ground inspections.

A bill filed by Representative Bresnahan, Lawrence Democrat, calls for a study of possible development of the

Merrimac river for hydroelectric power.

A bill proposing the imposition of a tax on one-fiftieth of one per cent of the gross receipts of all businesses to defray the cost of railways, street railways, busses, or other transportation facilities owned or operated by the state was also filed.

The first \$50,000 of gross receipts would be exempt from the proposed tax.

Missouri

Asks Rehearing on Antistrike Statute

LAST month State Attorney General J. E. Taylor asked the state supreme court to reconsider its recent decision upholding the constitutionality of some sections of the state's public utility anti-

strike law, known as the King Thompson Act. The state court upheld the validity of the mediation, conciliation, and arbitration provisions of the law, but declined to rule on the strike, seizure, and penalty provisions. Taylor contends the court should give its opinion on the constitutionality of each provision of the act.

North Carolina

Gas Rate Schedules Approved

PIEDMONT NATURAL GAS COMPANY last month received approval for the rate schedules it will put into effect when natural gas begins flowing through its mains.

But with the approval, the state utilities commission gave notice that income from gas sales must not be used to subsidize the company's gas appliance business. The company, the commission said, must establish separate accounts for its gas and appliance departments so as to guarantee that the appliance department "is not being supported in any manner from the gas sales . . ."

Spokesmen for Charlotte merchants claimed at a public hearing early last

month that they wanted to be certain that the company's rates were not inflated to absorb possible losses on appliance sales. The merchants explained they suspected the company might sell gas-using appliances at a loss in order to induce customers to buy gas stoves, water heaters, and refrigerators.

The new rates will apply in Winston-Salem, Salisbury, Spencer, East Spencer, High Point, Charlotte, Greensboro, Hamilton Lakes, Burlington, and Graham.

Piedmont bought the gas franchises and systems from Duke Power Company last April. It still operates with Duke's old rates and will continue to operate with them until it begins handling natural gas.

South Dakota

Governor Protests Interior's Decision

GOVERNOR Sigurd Anderson early last month said lifting distance limits

for marketing Ft. Randall and Garrison dam power is "dangerous and unfair."

In a sharply worded letter to Oscar L. Chapman, Secretary of the Interior, the governor asked action "to the end that

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the rights of the people of South Dakota will be safeguarded."

"South Dakota feels that assurances and guaranties of a fair share of power from our dams for South Dakota use should be made," Anderson said.

Until recently the Bureau of Reclamation, which is part of the Interior Department, limited sale of power from Ft. Randall to a radius of 150 miles. Garrison power could be marketed within 275 miles.

Chapman said the restriction was lifted because money was now available for building Oahe and Gavins Point dams. He said the additional 525,000 kilowatts from those dams would allow wider distribution of electricity from Ft. Randall and Garrison.

"The people of South Dakota look upon this decision as one that is dangerous and unfair," Anderson said. "Dangerous for the reason that it may take and transmit power from the Missouri basin to any place in the United States. And, unfair in that the needs and contributions of South Dakota in this program are not in one whit considered."

Anderson said the state would "contribute" 395,000 acres of land for reservoirs.

He stated that South Dakotans feel "certain assurances as to the power needs of South Dakota should have been made before taking the action that you did in removing all restrictions as to the marketability of power from the big dams in this state."

Texas

Second Firm Files Rate Request

THE Houston Natural Gas Corporation has formally filed its application with the city, asking for an increase in both residential and commercial gas rates. It has asked for more than the city public service department recommended for United Gas Corporation. The matter was referred to the public service department and the city legal department.

While the company has been watchfully awaiting council's action on the application of United Gas for a rate in-

crease, it said it now feels the time has come for independent action. An increase of about 9 per cent was suggested for United Gas by former Public Service Director Clinton Owsley.

Houston Natural indicated that it wants at least a 6.37 per cent return on its investment, or an increase in its present rates of about 30 per cent.

United Gas serves almost 140,000 customers in Houston while Houston Natural Gas serves approximately 45,000. Both companies now charge the same rate.

West Virginia

Seeks Rate Increase

THE Appalachian Electric Power Company recently asked for an average 9½ per cent rate increase that would affect about 430,000 customers in southern West Virginia and Virginia. The proposed schedule filed with the West Virginia Public Service Commission would hike the average monthly bill for residential customers about 40 cents and set a new minimum of \$1.50 instead of \$1.

The rates would range upward from

about 5.5 per cent for industrial users to about 13.5 per cent for the commercial customer.

Company officials said the average domestic customer gets a monthly bill of about \$4.42 to \$5.02 for using 125 to 150 kilowatt hours of electricity. These bills would go up to \$4.82 and \$5.49 under the new schedule.

Continued rising costs were said to have forced the company to ask for "its first general increase since the company was formed twenty-five years ago."



Progress of Regulation

Plan Approved for Electric Service to Tenants of Trailer Parks

OBJECTIONS by owners of trailer parks to the rule against resale of current to trailer park tenants brought before the Wisconsin commission the problem of handling this type of service. Objection had also been raised against the delays and inconveniences to trailer tenants that would result from direct utility service. The commission approved a plan for service through individual meters, billing to the trailer park owner, and collection of charges by the park operator from tenants on the basis of meter readings.

Where service is supplied directly to each trailer individually, the principal objection arises from delays of connection and disconnection and deposit requirements. Where service is furnished to the trailer camp as a commercial user without the right of submetering, the collection of a flat fee is unsatisfactory because of the use of appliances in trailers. Many trailers are elaborately equipped with refrigerators, electric heat, electric blanket, water heaters, roasters, lights, clocks, radios, and other appliances.

The principal purpose of restricting resale of service by a trailer camp owner is to eliminate the possibility of a middleman's profit and to insure to each user the protection afforded by commission regulation. Where a bill is apportioned properly, there is no chance for a middleman profit. Where a trailer camp tenant has the option of taking service direct from the utility, he has the opportunity of enjoying the same protection under commission regulation that is afforded all customers of a utility.

After discussing the problems pre-

sented by these facts, the commission decided that service to trailer parks should be available at an energy rate of 4 cents net per kilowatt hour, with a minimum annual bill of \$10 per meter. Any revenue received by the utility for service supplied at the standard residential rate to a trailer tenant through a meter would count toward the annual minimum electric bill.

A park operator may contract for service for any meter location and is required to furnish support and space to accommodate utility furnished metering equipment at each trailer lot and support to receive the utility's service wires. The distribution system in the park is to be furnished by the utility unless the owner of the park prefers to supply all or part of the facilities on his premises.

The park operator may (1) divide the charge he pays the utility for such service among the various tenants occupying the trailer lot from time to time by taking readings of the meter, rendering bills at the charge of 4 cents per kilowatt hour, and collecting that charge from successive tenants; or (2) supply electric service to any tenant as an incident of tenancy without a specific charge. The park operator is responsible for paying the entire registration on the meters.

If it is determined that the owner or operator is not complying with these conditions, he may be required at the option of the utility to (1) take service on the commercial service rate with submetering prohibited, or (2) arrange for individual utility service to each trailer, or (3) continue on the rate, using special forms pro-

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vided by the utility in billing each tenant and retaining copies of all prorated bills to tenants and of meter readings taken, for a period of not less than two years, which records shall be available for inspection by the utility.

When first arranging for electric service for any tenant, the park operator is required to notify the tenant that the tenant may obtain service at any time direct from the utility at the applicable standard

residential rate by making application to the utility instead of paying prorated bills to the park operator. A \$2 "short-term use" charge is made to the tenant at the time of transfer of the meter to the tenant's name. When the tenant terminates his connection the meter is again placed in the name of the park operator without further transfer charge. *Wisconsin Trailer Coach Asso. v. Wisconsin Power & Light Co.* 2-U-3390, December 3, 1951.



Weekly Pass Discontinuance Denied But Higher Rate Authorized

A TRANSIT company's application for authority to discontinue all weekly passes, except the school pass, was denied by the Wisconsin commission. The hearing on the application was attended by representatives of municipalities, labor unions, citizens' associations, and private individuals, all of whom opposed the elimination of the pass or a change in rate.

Although the commission was of the opinion that management should be given some latitude in the choice of the type of fare structure, it pointed out that the evidence in the proceeding was so preponderantly in favor of the use of the pass that approval of its elimination could not be granted unless it appeared that no fare structure with a weekly pass provision could provide adequate revenues. The evidence presented, the commission said, proved that the company's present fare structure was inadequate. It did not show that every fare structure with a weekly pass provision would be inadequate.

In attempting to bring the company's rate of return up to 6 per cent after taxes, the commission changed the weekly pass rate from a straight \$1.60 to \$2 in the downtown single-fare area and \$2.50, \$3, and \$3.50 in various suburban zones. The 15-cent cash fare for the single-fare area and the 5-cent fare for the suburban zones were not changed.

A ticket fare of seven tickets for 90 cents was eliminated. The commission said that this was necessary in the in-

terest of saving the pass without increasing the cash fare.

To a protest by a municipality that any increase in fare would put into operation the law of diminishing returns the commission replied:

The same contention was made in the prior cases. No facts were submitted to support the city's contention. Admittedly, it is extremely difficult to ascertain beforehand just when an increase in fares will start the operation of the law of diminishing returns. In the absence of probative evidence, the commission can only speculate. This it is not permitted to do.

Protests that increases in fares would cause greater use of private automobiles and complicate traffic problems were also overruled. The commission pointed out that it had no control over this factor, that if people do not wish to use mass transportation under a fare structure designed to fulfill the requirements of the law, there is no means by which the commission could compel them to do so.

Contentions by groups known as the "Save the Pass Committee" and "Roll Back the Price Committee" that to grant an increase in the price of the pass to \$2 would put fares beyond the reach of those who of necessity must rely on public transportation were overruled. The commission doubted that this would result. But even if it were persuaded to afford some measure of re-

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lief, it could not alleviate the economic plight of some riders at the expense of the company in the face of insufficient

earnings. *Re Milwaukee Electric R. & Transport Co. 2-R-2364, MC-1400, October 26, 1951.*



State May Not Cancel Interstate Carrier's Highway Permit For Unauthorized Operation

THE supreme court of Texas affirmed a lower court decision that the state commission had improperly canceled a certificate which permitted an interstate motor carrier to operate over Texas highways.

The carrier had first obtained authority to operate in interstate commerce from the Interstate Commerce Commission. Then it obtained a state certificate to use state highways in interstate service. Later, when the state commission discovered that the carrier was also handling intrastate shipments, it canceled the motor carrier's "highway" certificate.

The gist of the court's decision is indicated in this paragraph:

Respondent was found guilty of violating the permit issued to him by the railroad commission, by handling intrastate commerce, and we fully appreciate the desire of the railroad commission to stop such violations. However, we find nothing in the Federal law, or in the authoritative Federal decisions construing that law, which authorizes the railroad commission to cancel respondent's permit to handle interstate commerce, solely on the ground that he had violated his permit by handling intrastate commerce.

Railroad Commission v. Querner, 242 SW2d 166.



Graduated Telephone Rates Approved

THE Wisconsin commission authorized telephone rate increases from 50 cents per month for one-party business service to 15 cents a month for 4- and 8-party residence and rural service, rather than a proposed 20-cent increase in residence and rural rates and a 25-cent increase for business rates. It was pointed out that the percentage increase of the proposed rates for residence and rural lines would be higher than for business lines.

Graduated increases, it was noted, would make 4-party residence service more attractive and would possibly save on the number of lines needed at the switchboard.

This, it was said, would postpone the date when the switchboard must be enlarged, which would represent capital subject to premature obsolescence in view of a plan for conversion to automatic service. *Re Wood County Teleph. Co. 2-U-3658, November 9, 1951.*



REA Telephone Borrowing Permitted Subject to Protective Conditions

THE Washington commission authorized Farmers Mutual Telephone Company to issue and deliver to the United States a mortgage note, or notes, not to exceed the aggregate principal amount of \$1,087,000, repayable within

thirty-five years together with accrued interest on advancements. The loan is to be in accordance with the terms of the mortgage note and a contract under the Rural Electrification Act, but subject to specific reservations as to the commis-

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sion's regulatory jurisdiction with respect to such matters as rates, service, and facilities.

The proposed note provided in part that the company, subject to applicable laws, rules, regulations, and orders of regulatory bodies, would charge at least enough to pay all taxes and expenses, to pay principal and interest, and to maintain adequate working capital. The commission referred to § 202 of Title II of the Rural Electrification Act, which provides that nothing contained in the act shall be construed to deprive any state commission of jurisdiction to regulate telephone service which is not subject to regulation by the Federal Communications Commission. The commission then said:

In view of the above-quoted provision of the REA Act, it would appear unreasonable to assume that § 16 of the proposed mortgage can properly be interpreted as depriving this commission of any of the discretionary powers delegated to it by the laws of Washington with respect to determining the reasonableness of applicant's telephone rates. In approving issuance of the securities under consideration in this proceeding, the commission therefore wishes to make it clear to all parties concerned that such approval shall, in no way, be construed as impairing the power and duty of the commission to determine the reasonableness of applicant's present or future rates, charges, and tolls in accordance with applicable state laws, or any rules, regulations, or orders promulgated thereunder. The commission, therefore, cannot, and will not, bind itself to determine the reasonableness of applicant's rates, charges, and tolls, in accordance with any specific formula or procedure set forth in the proposed mortgage or loan contract.

The commission also mentioned two important provisions of the loan contract which might be construed as impairing the commission's powers and duties. One of these provided that no funds should

be advanced unless the borrower submitted evidence that it had obtained all necessary approvals and orders from regulatory bodies approving rate schedules satisfactory to the REA Administrator. The commission said it would not bind itself to enter any order in the future approving rate schedules satisfactory to the Administrator.

ANOTHER provision of the contract related to extensions of service. The commission noted that the company's extension policy was reasonable and the company had no alternative but to use only as much of the loan proceeds for the construction of future line extensions as might be necessary and proper under the provisions of that policy.

After obtaining the loan, the company would have a 78 per cent debt ratio, which is not usually considered proper for a soundly financed telephone company. The government, however, had made it possible for the company to borrow on 35-year notes the sum represented by this high ratio at a rate of interest even lower than large companies could borrow from banks on short-term notes. In fact, the company could retire the loan and pay interest on the diminishing balance for less than what the interest payments would be on the same amount if borrowed from certain private lending agencies. The high debt ratio, therefore, was not considered a significant factor.

The commission insisted that the company be protected from an obligation to repay more than amounts advanced, as might be possible under the terms of the proposed note. The note definitely obligated the company to repay \$1,087,000 together with interest on or before thirty-five years from the date of the note evidencing the obligation. Actually the first proposed advance of funds on account of the loan would be made to refund outstanding indebtedness not exceeding \$300,000 plus accrued interest. Thereafter the government would be under no obligation to make any further advances except pursuant to separate requisitions and accompanying documents satisfac-

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tory to the REA Administrator. The commission said:

In the absence of any specific provision in the proposed note itself clearly indicating that Farmers will be obligated to pay interest and principal only with respect to funds actually advanced to it from time to time, Farmers might possibly find itself legally liable to make principal and interest payments on an amount in excess of funds actually borrowed. To remove that possibility,

this order should, therefore, provide that the note, or notes, Farmers is authorized to issue and deliver shall be repayable on or before thirty-five years from the date thereof, together with accrued interest on the principal amount actually advanced and charged against such note or notes, regardless of the indicated principal amount thereof.

Re Farmers Mut. Teleph. Co. Cause No. U-8481, November 30, 1951.



Retirement Loss Claim of Telephone Company Rejected in Rate Proceeding

THE Georgia commission approved a telephone company's statewide application for a rate increase. The company predicated its need upon the substantial increases in the cost of rendering service which have come about since the company's last increase in the early part of 1949.

These rate increases were in (1) over-all investment in plant, (2) wages, (3) Federal income taxes, (4) materials, equipment, and supplies, and (5) other costs.

The company offered a substantial amount of evidence with respect to the "retirement loss resulting from the necessity for replacing retired property at higher cost levels than those under which the retired property was originally placed. The company contended that

... the depreciation expense amounts recorded on the books of the company resulted from the application of depreciation rates which recover only the original cost of the property, and falls short of recovery of the value of the property at present cost levels. It is claimed that at the time of retiring physical property there accordingly occurred a loss which is not reflected as such in the depreciation expense account, and that the amount of this loss is the difference between the original cost and the replacement cost of the property retired.

The company recognized the practical necessity for computing depreciation on the basis of original cost and specifically did not suggest any change in the prescribed accounting system but "approached the matter of supplementing the depreciation accounting to keep the plant intact, thus considering the retirement losses as they occur."

The commission described the company's position on retirement loss as "a novel approach in an endeavor to justify an extremely questionable cost of operation." It would have the effect of computing depreciation expense on replacement cost over a period of years. In rejecting the company's claim regarding this item, the commission said:

To acknowledge that there is a retirement loss, chargeable to operating expenses, would require the ratepayer to provide a portion of the capital requirements of the company, which is contrary to a fundamental concept of regulation. That concept places the burden on the utility to provide reasonable capital amounts required for the construction of facilities for service, and requires that a regulatory commission must permit a reasonable charge for depreciation on such plant and equipment used in providing service to the public. In addition, it must allow a reasonable rate of return on investment devoted to public service. Under

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present accounting regulations, the ratepayer, if retirement losses were recognized, would be called on to provide a portion of the future capital requirements of the company. In addition, future rates for service would include annual depreciation, as well as a rate of return, on the portion of capital requirements thus supplied by the ratepayer.

The company submitted three rate bases: (1) reproduction cost, (2) gross investment, and (3) net investment. The commission commented on the fact that this was the first case in recent years in which the company had submitted reproduction cost evidence. It was not considered necessary to restate in this case the reason why "reproduction cost is not a proper rate base and why it appears to work an undue hardship on the public."

The commission decided that the average net investment for the period should be used as a rate base and that the business development at the middle of the period under consideration should be the basis for computing rates.

Plant under construction was eliminated from the company's rate base because interest is capitalized on construction funds, thereby providing a return on these funds as they are used. Property held for future use, on which no interest was capitalized, was included in the rate base.

The commission staff opposed any allowance for plant acquisition adjustments for the reason that it represented a balance incurred many years ago which should have been amortized prior to this time. The commission, in allowing this

item, apparently accepted the company's contention that "the balance should be retained for the reason that it represented an actual investment at arm's-length bargaining."

The commission added to the company's rate base the sum of \$6,500,000. This was stated to represent the excess investment at current cost levels above the average investment per station in service projected for two years into the future.

Commissioner McDonald, in a dissenting opinion, differed sharply with the majority on this point. He described the practice of adding such an item to the rate base as too speculative and said it should be condemned because it assesses present subscribers to insulate the company from future adverse economic affairs. He commented further in these words:

This means, therefore, that the commission has allowed the telephone company to exact from its subscribers approximately \$780,000 as earnings upon \$6,500,000 of froth and foam which stands for not a dollar of investment or property. The commission's responsibility and the ultimate result sought in any rate investigation is to provide a fair return on dollars devoted to the public service under honest and efficient management.

The commissioner did not support the majority's allowance of a 6 per cent return and said that a 5.5 per cent had been found adequate in many other states in recent months. *Re Southern Bell Teleph. & Teleg. Co. File No 19315, Docket No. 195-U, November 1, 1951.*



Other Important Rulings

A FEDERAL district court granted a motion by a manufacturer of butter to dismiss a complaint, by the Interstate Commerce Commission, seeking to enjoin alleged violations by the manufacturer of the Interstate Commerce Act by procuring and inducing motor carriers to transport goods without authority, be-

cause a manufacturer does not fall within the purview of the act. *Interstate Commerce Commission v. Blue Diamond Products Co.* 99 F Supp 452.

The Federal Power Commission held that public support, by itself, cannot be an effective substitute for the bur-

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den imposed upon an applicant for a certificate under the Natural Gas Act to meet the statutory criteria and the minimum standards, nor can it be an effective means to bridge the differences in the quality of the showing by competing applicants. *Re Grand River-Erie Gas Transmission Co. et al. Docket Nos. G-1210, G-1236, Opinion No. 205-A, September 21, 1951.*

The Utah Supreme Court, in affirming a commission order granting a contract carrier permit to a trucking company which previously had been denied operating authority, observed that the earlier action of the commission did not preclude the carrier from making a subsequent application and a further showing of the advantages of the proposed service. *Cantlay v. Public Service Commission, 233 P2d 344.*

The Illinois commission held that a return of 10 per cent on a telephone company's common stock was excessive and that a more modest return would suffice to maintain the company's credit. *Re*

Middle States Teleph. Co. Docket No. 39022, October 10, 1951.

The Pennsylvania commission authorized a motor carrier to serve within the territory of a railroad because of the need for same day and following day service for certain commodities. *Re Kenny Transfer, Inc. Application Docket No. 74004, Folder 5, September 24, 1951.*

The Indiana commission held that evidence that trucks of an applicant for a motor carrier certificate, while leased to another operator, were engaged in an illegal operation was not sufficient to deny the application. *Re Marion Trucking Co. No. 2747-A, 16, November 1, 1951.*

The Florida commission held that modified rates that would yield a return of 7.09 per cent for a small telephone company were fair and reasonable. *Re St. Joseph Teleph. & Teleg. Co. Docket No. 3269-TP, Order No. 1739, November 29, 1951.*

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Public Utilities Reports (New Series) are published in five bound volumes a year, with the PUR Annual (Index). These Reports contain the cases preprinted in the issues of PUBLIC UTILITIES FORTNIGHTLY, as well as additional cases and digests of cases. The volumes are \$7.50 each; the Annual (Index) \$6.00. *Public Utilities Reports* also will subsequently contain in full or abstract form cases referred to in the foregoing pages of "Progress of Regulation."

PUBLIC UTILITIES REPORTS

WYOMING PUBLIC SERVICE COMMISSION

Re Rawlins Electric Company et al.

Docket Nos. 605 Sub 5, 9060 Sub 2
October 8, 1951

HEARING on applications of electric company and rural electric association for authority to serve the same area; electric company authorized to serve contested area and rural electric association authorized to serve other rural areas.

Monopoly and competition, § 34 — Basis for competition — Inadequacy of existing service.

1. An electric company, over objection, should not be permitted to invade the service area of another unless the evidence clearly shows a deficiency of service or forfeiture of rights on the part of the dominant utility, p. 6.

Certificates of convenience and necessity, § 102 — Rural electric extensions — Rate factor.

2. An electric company should be allowed to extend its service into rural communities whenever it is economically feasible for it to do so, provided the public therein can be furnished with adequate service at reasonable rates, p. 7.

Certificates of convenience and necessity, § 90 — Electric extensions — Future service by co-operative association.

3. An electric company should not be denied the right to serve a rural area when it is ready, willing, and able to do so as soon as electric energy is available, merely because a rural electric association desiring to serve the same area may be able to serve an uncontested area at some future time if the contested area is allocated to it, p. 7.

APPEARANCES: Brimmer and Brimmer, Attorneys at Law, Rawlins, appearing for Rawlins Electric Company, Rawlins; C. W. Axtell, Attorney at Law, Thermopolis, appearing

for Hot Springs County Rural Electric Association, Thermopolis; A. R. McMicken, Attorney at Law, appearing for Southern Wyoming Utilities Company, Rock Springs; and W. D.

WYOMING PUBLIC SERVICE COMMISSION

Johnston, Casper, appearing for Mountain States Power Company, Casper.

By the COMMISSION: Docket No. 605 Sub 5 is before the Commission upon the amended application of the Rawlins Electric Company, hereinafter called the "company," for an order granting it a certificate of public convenience and necessity to construct, operate, and maintain, as a public utility, electric distribution lines and facilities incident thereto for the purpose of furnishing electric energy to the public in the following described territory in Carbon and Fremont counties in the state of Wyoming, to wit:

Carbon County

Townships 25, 26, 27, and 28 North, Ranges 86, 87, 88, and 89 West of the 6th P. M.

Fremont County

Township 27 North, Ranges 90, 91, 92, and 93 West of the 6th P. M.; and Township 28 North, Range 90, 91, 92, 93, 94, 95, 96, and 97 West of the 6th P. M.

The application in this docket was filed with the Commission on March 2, 1951. Subsequent to the filing thereof and on April 27, 1951, Hot Springs County Rural Electric Association, hereinafter referred to as "REA," filed with the Commission an application docketed as above. By this application, as amended, it seeks an order of the Commission further amending the certificate of public convenience and necessity granted to it by order of the Commission entered in Docket No. 9060 on February 19, 1945, as amended by order of the Commission entered in Docket No. 9060 Sub 1 on January 17, 1946, so as to authorize it to furnish electric energy to the public for light, heat, power, and other beneficial uses within an area in Natrona, Fremont, Sweetwater, and Carbon

counties in Wyoming, described as follows:

Commencing at the southeast corner of Hot Springs county, Wyoming, thence north to the south boundary of Washakie county, Wyoming, thence east to the west boundary of Johnson county, Wyoming, thence south to the southwest corner of Johnson county, Wyoming, thence east to the southeast corner of Township 41 North of Range 82 West, thence south to the southeast corner of Township 34 North of Range 82 West, thence west 2 miles, thence south to the center of Township 32 North of Range 82 West, thence east to the center of the east line of Township 32 North of Range 81 West, thence south to the southeast corner of Township 32 North of Range 81 West, thence east to the east boundary of Natrona county, Wyoming, thence south along the east boundaries of Natrona and Carbon counties, Wyoming, to the south line of Township 24 North, thence west along the south boundary of Township 24 North, to the southwest corner of Township 24, Range 83 West, thence north to the northwest corner of Township 24 North, Range 83 West, thence west along the south boundary of Township 25 North to the east boundary of Sweetwater county, thence north on the Fremont county boundary to the northwest corner of Township 25 North, Range 89 West, thence west along the south boundary of Township 26 North, Range 89 West to the southwest corner of Township 26 North, Range 92 West, thence north to the northwest corner of Township 26 North, Range 92 West, thence west to the southwest corner of Township 27 North, Range 93 West, thence

RE RAWLINS ELECTRIC CO.

north to the northwest corner of Township 30 North, Range 93 West, thence east along the north boundary of Township 30 North to the northwest corner of Township 30 North, Range 91 West, thence north along the east boundary of Range 92 West to the south boundary of Hot Springs county, Wyoming, thence east on the Hot Springs county, Wyoming, south boundary to the point of beginning.

The additional service area sought by REA through its amended application herein, as above described, overlaps, duplicates, and embraces all of the territory sought by the company through its amended application, except Township 28 North, Ranges 94, 95, 96, and 97 West of the 6th P.M. in Fremont county, Wyoming; and same includes Township 26 North, Ranges 90, 91, and 92 West of the 6th P.M. in Sweetwater county, Wyoming, which said territory has been heretofore allocated to the Southern Wyoming Utilities Company of Rock Springs, Wyoming, by order of the Commission entered in Docket No. 1934 on May 1, 1948. It also encompasses and duplicates Township 38 North, Ranges 90 and 91 West; Township 39 North, Range 90 West and the west one-half of Township 39 North, Range 89 West in Fremont county, Wyoming, and the east one-half of Township 39 North, Range 89 West in Natrona county, Wyoming, which said territory last described is now held by Riverton Valley Electric Association, Inc., under certificate of public convenience and necessity issued to it by the Commission in Docket No. 9033 on May 26, 1943.

Upon preliminary consideration of said applications and the territory

sought by each of said applicants thereby, the Commission entered an order in this proceeding on May 4, 1951, assigning both of them for public hearing before the Commission upon a consolidated record in the district courtroom, Carbon county courthouse, Rawlins, Wyoming, on June 1, 1951, at 10 o'clock A.M.; and directing the secretary of the Commission to give due and timely notice of said hearing to all interested parties. Pursuant to notice duly given in the manner directed by said order, said applications were heard by the entire Commission at the time and place aforesaid upon a consolidated record, with appearances as shown above. The Commission now having duly considered said applications, the record in this proceeding and being fully advised in the premises, hereby enters its report, findings, and order herein as follows:

Rawlins Electric Company is a Wyoming corporation having its principal place of business at Rawlins, Wyoming. It is a public utility and as such it is presently engaged in the business of furnishing electric energy to the public within the city of Rawlins, Wyoming, the town of Wamsutter, Wyoming, the community of Table Rock, Wyoming, and within other communities and rural areas in Carbon and Sweetwater counties in the state of Wyoming, under and pursuant to certificate of public convenience and necessity issued to it by the Commission in Docket No. 605 Sub 1 on October 20, 1941, as amended by order of the Commission entered in Docket No. 605 Sub 4 on January 9, 1945. It purchases the electric energy which it distributes to consumers within its presently certificated service area from

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the United States Department of the Interior, Bureau of Reclamation, hereinafter referred to as the "Bureau," under an existing contract between said parties; and it owns and maintains a standby steam generating plant at Rawlins, Wyoming, for use during emergencies.

The rural and urban territory, above described, which this applicant seeks authority to serve by its amended application herein, is contiguous and adjacent to and located north and west of its authorized service area in Carbon county, Wyoming. The territory includes the communities of Lamont, Muddy Gap, commonly known as "Three Forks," Crooks Gap, and four townships of arid potential oil lands lying west of the latter community in Fremont county, Wyoming, namely: Township 28 North, Ranges 94, 95, 96, and 97 West of the 6th P. M. It also embraces the Mahoney Dome, Wertz, Ferris, Bailey, Crooks Gap, and Happy Springs oil fields which are operated and now being developed by the Sinclair Oil and Gas Company; and certain camps operated by said company in connection with its oil production and development operations within said fields.

The potential electric utility market in the territory sought by the company, excluding the industrial loads therein, consists of approximately thirty prospective domestic users in the community of Lamont, who have requested service from the company; twenty such users in the oil camp of Crooks Gap and a few scattered farmers and ranchers throughout said involved territory. There is no present need or demand for electric service in the four townships west of Crooks Gap, last above de-

scribed; however, the company seeks their inclusion within its proposed extended area so that it will be authorized to serve any industrial or other load which might develop therein.

According to the evidence, the Bureau intends to construct a 34.5-kilovolt electric transmission line approximately thirty-eight miles in length extending in a northwesterly direction from a point on its existing Seminole Dam-Rawlins transmission line through or near the community of Lamont to a substation to be constructed by it in the community of Baroil in Sweetwater county, Wyoming. This transmission line will be completed on or before July 1, 1953. The company intends to purchase electric energy for distribution in said territory from the Bureau at its so-called wholesale rate. The latter, according to present arrangements, will make delivery to the company at a point on its new Baroil transmission line near Lamont as soon as said line is completed; and the company will then serve the public in the desired area through the use of its own distribution lines and other facilities which it intends to construct therein at a cost of approximately \$5,000. The company is able financially, and it has the necessary materials on hand, to construct said distribution facilities, when power is available at Lamont. It intends to furnish electric service in said area at its presently filed and approved rural rates; and it will extend its new lines therein to serve rural installations in conformity with its rural extension rules and regulations.

Hot Springs County Rural Electric Association is a nonprofit corporation organized under the laws of the state

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of Wyoming, having its principal place of business at Thermopolis, Wyoming. It is a co-operative electric utility and as such it is presently engaged in the business of furnishing electric energy to its membership in certain rural areas in Hot Springs county, Wyoming, for domestic, industrial, and other beneficial uses under and pursuant to certificate of public convenience and necessity issued to it by the Commission in Docket No. 9060 on February 19, 1945, as amended by order of the Commission entered in Docket No. 9060 Sub 1 on January 17, 1946, at rates approved by the Commission. It is financed by Federal public funds, pursuant to the Rural Electrification Act of 1936, which provides for loans by the government to utility co-operatives "for rural electrification and the furnishing of electric service to persons in rural areas who are not receiving central station service."

In presenting its amended application herein, REA divided the territory sought by it thereby, as above described, into two parts, namely: (1) That portion of said territory in Carbon and Sweetwater counties in Wyoming located north and east of the double green lines imposed on Exhibit 1 (map showing entire territory sought by REA); and (2) That portion of said territory located south and west of said double green lines on said map. The territory designated as part one above includes the above-mentioned area in Fremont and Natrona counties now held by Riverton Valley Electric Association, Inc. This territory is known as the Lysite-Lost Cabin area. There are certain existing and potential oil pipeline pumping loads in this area. The Bureau is now

serving the present industrial load therein (Service Pipe Line Company); and REA expects to obtain the prospective pumping load therein when the new oil pipeline of the Platte Pipe Line Company is completed. On August 31, 1951, REA filed herein, by way of a post-hearing exhibit, a letter from Riverton Valley whereby the latter agrees that said area may be served by said applicant. The record herein indicates that Mountain States Power Company has no objections to any of the territory sought by REA; however, it admonishes the Commission against issuing exclusive certificates to electric utilities covering extensive rural areas in the state; and particularly to tax-free electric co-operative associations. Neither does the company object to the issuance of a certificate to REA covering the territory designated as part one above.

REA intends to construct 300 miles of transmission and distribution lines in said uncontested territory to serve 200 new members therein including the operators of the Notches Dome and Poison Spider oil fields and farmers and ranchers in the Powder River, Alcova-Bates, and Kortess-Shirley basin areas who have been trying for some time to obtain central station service. These new members will be served with electricity to be purchased by REA from the Bureau at substations to be constructed by the former at Powder River, Alcova and Kortess. This project has been engineered by REA. The Rural Electrification Administration has approved a government loan to REA in the amount of \$450,000 to finance same; and construction of said transmission and dis-

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tribution lines will be commenced as soon as materials are available.

As indicated above, the territory sought by REA designated as part two overlaps and duplicates all of the territory sought by the company herein, except the four townships west of Crooks Gap, above described, and includes the above-mentioned townships in Sweetwater county now held by the Southern Wyoming Utilities Company. It also includes eighteen townships in Fremont and Natrona counties located immediately north of the territory sought by the company, which comprise an area known as the Sweetwater River valley. This valley contains about twenty-five farms and ranches; and a majority of the owners and operators thereof have requested REA to furnish them with electric service. REA contends that it is not feasible to provide service to said ranches as a part of its approved project; and that it cannot feasibly serve said valley as an independent unit. It represents, however, that same might be served by it by constructing a distribution line northward from the proposed transmission line of the Bureau near Lamont along U. S. Highway 287 to a point near Split Rock; thence northeast therefrom to Alcova and westward from said point through said valley, provided it is permitted to serve the potential electric service market in the area sought by the company. It states that the potential customers in the Lamont and Crooks Gap area will provide the required customer density to establish feasibility for such a project. It further represents that if the Commission will grant unto it the territory sought by the company, except

the four townships west of Crooks Gap, it will immediately make a further engineering survey of the entire territory (part two); and thereafter make application to the Rural Electrification Administration for an allocation of funds to finance the construction of necessary distribution facilities in said area. REA cannot assure the Commission that the loan officials of the Rural Electrification Administration will approve this embryo project; however, it is willing to submit same to them for consideration.

[1] In our opinion in the matter of the application of Washakie Rural Electric Company (Docket No. 9043 Sub 1) we held that an electric utility, over objection, should not be permitted to invade the service area of another to provide electric service therein, under limitations or otherwise, unless the evidence clearly shows a deficiency of service or forfeiture of rights on the part of the dominant utility. The record herein does not reveal any inadequacy of service on the part of the Southern Wyoming Utilities Company in the territory sought by REA in Sweetwater county, Wyoming; and consequently we find that its amended application, in so far as it pertains to Township 26 North, Ranges 90, 91, and 92 West of the 6th P. M., Sweetwater county, Wyoming, should be denied. We further find from the evidence herein that the present public convenience and necessity does not require the electric service proposed by the company in Township 28 North, Ranges 94, 95, 96, and 97 West of the 6th P. M., Fremont county, Wyoming; and that its amended application, in so far as same relates to said territory, should be denied at this time. We

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further find from the evidence that the present and future public convenience and necessity require the electric service proposed by the company in the other rural and urban territory sought by it through its amended application herein; and that the public convenience and necessity require the electric service proposed by REA in the uncontested territory above mentioned, as well as within the eighteen townships comprising the Sweetwater River valley, namely: Townships 29 and 30 North, Ranges 90, 91, 92, and 93 West, Fremont county, Wyoming, and Townships 29 and 30, Ranges 85, 86, 87, 88, and 89 West, Natrona county, Wyoming.

[2, 3] The principal issue which we are called upon to decide herein is which one of the applicants above named (the company or the REA) should be granted the right to serve the contested area sought by the company in this proceeding. We have here a situation where a private utility desires authority to expand its service lines and facilities into a rural and urban area contiguous and adjacent to its major operations, even though its proposed operations in said area may result in a small financial loss. In the absence of the application of REA in this proceeding, it might be lawful for the company to extend its service into the Lamont and Crooks Gap areas without a certificate of public convenience and necessity (§ 64-304, WCS 1945). In our opinion, a private electric utility should be allowed to extend its service into rural communities whenever it is economically feasible for it to do so, provided the public therein can be furnished with adequate service at reasonable rates. Such extensions

conserve public funds for allocation by the Rural Electrification Administration to co-operative electric utilities for their use in providing adequate electric service for persons in rural areas who cannot obtain same from private utilities at reasonable rates. The granting of the contested area to REA can only be justified upon the theory that the potential electric utility market therein will establish the required customer density to enable it to serve the farms and ranches in the Sweetwater River valley. This REA project is in the planning stage. We have no assurance that the Rural Electrification Administration will allocate funds for said proposed project; neither can we compel REA to serve this valley if it is not economically feasible for it to do so. In our opinion, potential customers in this contested area should have the benefits of electric service as soon as possible. We do not believe that the company should be denied the right to serve said area when it is ready, willing, and able to do so as soon as electric energy is available at Lamont, merely because REA may be able to serve the Sweetwater River valley at some future time if said contested area is allocated to it.

Co-operative electric utilities undertake to furnish electric service in an expanded area where many of their lines may not be economically feasible, but where industrial and other concentrated loads therein make it possible for them to serve the entire area. In fact, the feasibility of the uncontested area sought by REA herein was approved by Rural Electrification Administration officials because of the existing industrial loads therein. In our opinion, other industrial loads will

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develop in said area in the future (Platte Pipe Line Company) which will enable REA to serve the farmers and ranchers in the Sweetwater River valley without the contested area which it seeks in this proceeding.

We therefore conclude and find that the application of Rawlins Electric Company should be granted in part; and that its certificate of public convenience and necessity should be amended so as to include all of the territory sought by its amended application herein, except Township 28 North Ranges 94, 95, 96, and 97 West

of the 6th P. M., Fremont county Wyoming; that the amended application of Hot Springs County Rural Electric Association should be granted in part; and that its certificate should be amended so as to include the untested territory sought by it, except Township 26, Ranges 90, 91, and 92 West of the 6th P. M., Sweetwater county, Wyoming, and the territory comprising the Sweetwater River valley, above described.

An order will be entered herein accordingly. [Order omitted herein.]

ARKANSAS PUBLIC SERVICE COMMISSION

Re Arkansas Electric Co-operative Corporation

Docket No. U-511

August 11, 1951

APPPLICATION by co-operative corporation for authority to construct and operate electric generating and transmission facilities; granted.

Co-operative associations — Contract for sale and exchange of electric power — Scope of Enabling Act.

1. Agreements between a rural electric co-operative corporation and the Southwestern Power Administration, an agency of the United States Department of the Interior, providing for the sale and exchange of electric energy and for construction and lease of electric transmission facilities were held to be within the scope of authority of a corporation organized under enabling legislation relating to co-operatives, since the legislature did not intend to limit or restrict the method that would be employed in accomplishing the basic objective of bringing electric service to the farms of the state, p. 12.

Certificates of convenience and necessity, § 159 — Scope of proceeding — Status of Federal agency — Co-operative association.

2. Whether or not the Southwestern Power Administration, an agency of the United States Department of the Interior, is now or may in the future become a public utility subject to the jurisdiction of the state Commission

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is not properly before the Commission in a proceeding brought by a rural electric co-operative corporation for authority to construct, maintain, and operate electric generating and transmission facilities, p. 12.

Commissions, § 31 — Jurisdiction of state Commission — Violation of Federal statute.

3. The state Commission, in entertaining an application by a rural electric co-operative corporation for authority to construct, maintain, and operate electric generating and transmission facilities, does not have authority to determine whether or not the Southwestern Power Administration, an agency of the United States Department of the Interior, is violating the Flood Control Act by entering into a sale and exchange agreement with the electric co-operative, since the policy of Congress in adopting the Flood Control Act is largely a matter for determination by Congress itself, p. 13.

Certificates of convenience and necessity, § 88 — Rural electric co-operative corporation — Test of public convenience and necessity.

4. The Commission, in passing upon a rural electric co-operative corporation's application for authority to construct, maintain, and operate electric generating and transmission facilities, should determine the benefits that will accrue in relation to the harm that will result from the granting of a certificate, resulting benefits to present and prospective users of utility service, and the effect of the granting of the certificate upon existing suppliers of utility service, as well as the result upon the people at large, p. 13.

Monopoly and competition, § 54.1 — Co-operative corporation — Competition with electric utilities.

5. Farmers may not be denied the privilege of building their own electric facilities to serve themselves, and by such denial be required to take power from electric companies, particularly where the general public will be materially aided by the construction of facilities by a rural electric co-operative corporation, where no great harm will be suffered by anyone and where the general economy of the state will be promoted by such construction, p. 16.

Monopoly and competition, § 54.1 — Electric utility — Competition with co-operative corporation.

6. Electric companies which are validly operating within the state should be protected against competition by a rural electric co-operative corporation if that competition would injure any of the electric utilities to a greater degree than it would help the co-operative and other beneficiaries of the co-operative corporation's petition for authority to construct and operate electric generating facilities, p. 16.

Co-operative associations — Statutory powers — Electric sales to Federal agency.

Discussion, in dissenting opinion, of co-operative corporation's power to sell entire output of a proposed generating station to an agency of the United States Government, p. 20.

Co-operative associations — Federal purchase of electric energy.

Discussion, in dissenting opinion, of a Federal agency's authority to buy electric power generated by a co-operative association, p. 21.

Monopoly and competition, § 54.1 — Co-operative corporation — Private utilities and Federal agencies.

Discussion, in dissenting opinion, of the desirability of competition between private electric utilities and agencies of the United States Government, p. 25.

(Wood, Chairman, dissents.)

ARKANSAS PUBLIC SERVICE COMMISSION

By the COMMISSION:

Nature of Proceeding and the Parties

On January 30, 1951, Arkansas Electric Co-operative Corporation (hereinafter referred to as "Arkansas Electric" or "petitioner") filed application with this Commission for a certificate of convenience and necessity to construct, maintain, and operate a 30,000-kilowatt steam electric generating station near Ozark, Arkansas, and for a certificate of convenience and necessity to construct and operate, through lease, 544 miles of 69-kilovolt transmission line with appropriate substation facilities.

Arkansas Electric is an Arkansas corporation organized under Act 342 of the Acts of the Arkansas General Assembly of 1937 (Ark Stats §§ 77-1101—77-1136). Arkansas Electric is a federated co-operative whose board of directors consists of three representatives from the Arkansas Valley Electric Co-operative Corporation of Ozark, Arkansas, three representatives from Carroll Electric Co-operative Corporation of Berryville, Arkansas, and three representatives from the Ozarks Rural Electric Co-operative Corporation of Fayetteville, Arkansas.

These three distribution co-operatives were organized under Act 342 of 1937 and are now providing electric service in western and northwestern Arkansas under authority of certificates of convenience and necessity granted by this Commission. These three distribution co-operatives have entered into contracts with Arkansas Electric to purchase their power requirements from Arkansas Electric.

Arkansas Electric Proposes to Construct Steam Power Plant

Arkansas Electric proposes to construct, maintain, and operate a 30,000-kilowatt steam electric generating plant in the vicinity of Ozark, Arkansas. The plant will be located adjacent to the Arkansas river and the Missouri Pacific Railroad. The power plant is designed to burn coal, natural gas, or fuel oil.

Arkansas Electric Proposes to Build and Lease Transmission Facilities

A step-up substation will be built in connection with the steam power plant whereby the voltage will be stepped up from power plant generation of 13,000 volts to 154,000 volts. This step-up substation will permit the interconnection with the 154,000-volt transmission line emanating from hydro-projects, and owned and operated by the Southwestern Power Administration (hereinafter referred to as "SPA"), an agency of the Department of the Interior of the United States Government.

Arkansas Electric also proposes to construct and operate through lease with SPA 544 miles of 69-kilovolt transmission line and 22 step-down substations to be integrated with the transmission system. These facilities will be used to deliver power at the load centers of the three distribution co-operatives.

Arkansas Electric Agreements with SPA

Arkansas Electric entered into an agreement with SPA for the sale and exchange of electric power and energy and an agreement for construction and lease of electric transmission facilities. Under these agreements

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SPA will purchase the entire output of the 30,000-kilowatt power plant on a minimum annual load factor of 85 per cent. Under the sale and exchange agreement Arkansas Electric will in turn purchase back from SPA the power requirements necessary to meet its obligations to supply electric power and energy to the three distribution co-operatives. The purpose of the interconnection with the SPA hydro-system eliminates the necessity of standby generating facilities and insures continuity of service.

Simultaneously with the execution of the agreement for the sale and exchange of electric power an agreement was executed between Arkansas Electric and SPA for the construction and lease of electric transmission facilities. These two agreements were interrelated as to purpose and operation, and in the event of termination of either agreement by SPA, Arkansas Electric has the option to terminate both agreements. Article 1, § 5, of the Construction and Lease Agreement provides: "The government (SPA) shall at all times reserve sufficient capacity in the transmission system to fulfil its power contract with the Co-operative, including any increase in contract demand which has been made in the power contract, in accordance with the provisions thereof."

Present Wholesale Power Contracts of the Distribution Co-operatives

The three distribution co-operatives that are members of Arkansas Electric are at the present time purchasing their electric power and energy at wholesale from the Arkansas Power & Light Company (hereinafter referred to as "AP&L"), the Oklahoma Gas & Electric Company (hereinafter referred

to as "OG&E"), and the Southwestern Gas and Electric Company (hereinafter referred to as "SWG&E").

Notice to Power Companies

The present power suppliers were all forwarded a copy of the petition of Arkansas Electric. Each of the present power suppliers and the Arkansas Missouri Power Company with headquarters at Blytheville, Arkansas, filed petitions to intervene which were granted by the Commission.

The International Brotherhood of Electric Workers also filed a petition to intervene prior to the hearing, which was granted.

The United Mine Workers, just prior to the conclusion of the hearing, also filed a petition to intervene, which was granted. The latter two interveners also protested the granting of a certificate.

The Commission Hearing

An exhaustive hearing was held by this Commission beginning on March 21st and concluding on June 22, 1951. The testimony of the various witnesses for Arkansas Electric and the interveners consumed 3,352 pages in the transcript, and voluminous exhibits were also introduced. Exhaustive briefs were filed by all parties, and oral argument was held on August 6th and 7th. The Commission granted wide latitude to all parties in the introduction of exhibits and testimony. The three Commissioners and the chiefs of the accounting and engineering departments of the Commission were present during the entire proceeding.

Interveners Filed Motion to Dismiss

During the proceeding before the Commission the interveners filed a mo-

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tion to dismiss, alleging that this Commission may not legally and validly award the certificate requested.

Briefs were filed by interveners and Arkansas Electric, and oral argument was held on August 6th on the motion to dismiss.

Validity of Agreements between Arkansas Electric and SPA

[1] The interveners allege that the agreements between Arkansas Electric and SPA are beyond the scope of authority of a corporation organized under Act 342 of 1937. This contention is based upon the allegation that the Arkansas law contemplates that rural electric co-operatives are limited in providing service to those living in rural areas and not receiving central station service. The contention was made that it was not the intent of the Arkansas general assembly in adopting the enabling legislation to permit the type of agreements that are before the Commission in this proceeding.

The Commission is of the opinion that the basic intent of the general assembly of Arkansas in adopting Act 342 of 1937 was to provide electric service to the many unserved farms within the state. This legislation in our opinion clearly contemplated that the method used in securing a power supply is incidental to the fundamental purpose of supplying electric power to the unserved farms of Arkansas. At the time this legislation was adopted, less than 3 per cent of the farms in Arkansas had electric service. At the present time more than 85 per cent of the farms have electric service. This splendid record of accomplishment is a tribute to both the rural electric co-operatives and the intervening power companies. We conclude that the gen-

eral assembly did not intend to limit or restrict the method that would be employed in accomplishing the basic objective of bringing electric service to the farms of Arkansas.

Interveners Allege SPA Is Real Party in Interest

[2] The interveners allege that SPA is the real party in interest and that therefore this Commission may not validly grant a certificate to Arkansas Electric. This allegation is based upon the contention of the interveners that the facilities proposed to be built by Arkansas Electric are in fact being built for SPA and therefore SPA should request a certificate from this Commission.

The testimony in this case is clear and convincing that the three distribution co-operatives are serving in areas that have been allocated by this Commission. The interveners admit that there has been no effort on the part of the three distribution co-operatives to invade territory of the intervening power companies or to secure present or prospective customers of the intervening power companies. The record is also clear that the proposal of Arkansas Electric is basically to supply the power requirements of the three distribution co-operatives and the interchange contracts with SPA are a legitimate and proper method of accomplishing that objective.

Whether or not SPA is now or may in the future become a public utility subject to the jurisdiction and regulation of the Commission in our opinion is not properly before the Commission in this proceeding. The interveners have attempted to enlarge the issue based upon their assertions of what

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they contend will be the ultimate effect of the granting of the certificate.

This Commission is now passing upon the petition of Arkansas Electric and in our opinion this is the issue that is before the Commission. *Vinson v. Washington Gas Light Co.* (1944) 321 US 489, 88 L ed 883, 52 PUR NS 257, 64 S Ct 731; *Interstate Commerce Commission v. Jersey City* (1944) 322 US 503, 88 L ed 1420, 53 PUR NS 257, 64 S Ct 1129.

Interveners Allege That Agreements between Arkansas Electric and SPA Violate § 5 of the Flood Control Act of 1944

[3] Interveners allege that the agreements between Arkansas Electric and SPA are invalid because they violate § 5 of the Flood Control Act of 1944 as passed by the Congress of the United States. Interveners introduced voluminous testimony and many exhibits to support their contention that the agreements between Arkansas Electric and SPA were contrary to the Flood Control Act in that said agreements unlawfully permitted SPA to secure steam generation and unlawfully permitted SPA to secure the use of transmission facilities prohibited by the Flood Control Act.

The policy of the Congress in adopting the Flood Control Act is largely a matter for determination by Congress itself. Congress has continuing authority to interpret the act both by legislation and the granting or withholding of appropriations to SPA in the event Congress is of the opinion that SPA is proceeding in a manner contrary to the intent of Congress. It is apparent that the intervening power companies also recognize this principle, as evidenced by the many appear-

ances that representatives of the intervening power companies have made before various congressional committees since the adoption of the Flood Control Act. The committees of Congress and the courts provide a forum for the presentation by the power companies of any alleged violations of the Flood Control Act.

This record is clear that agreements have been entered into between OG&E and SPA and between SWG&E and SPA whereby these power companies, among other things, are interchanging steam electric power for hydroelectric power. The vice president of OG&E, at page 1735 of the transcript, stated: "In other words . . . hydro-power can be used during the day-time to the extent that there is water available, and then at all other times that off-peak steam power comes into play and can be purchased . . . under the Oklahoma contract."

We do not agree with the contention of the interveners that this Commission in this proceeding has authority to determine whether or not SPA is violating the Flood Control Act by the contracts entered into with Arkansas Electric. In the alternative, even if we assumed jurisdiction to determine the alleged violations of the Flood Control Act, it is our opinion that the agreements before the Commission are compatible with the Flood Control Act.

Motion to Dismiss Is Denied

After considering all grounds alleged in the motion to dismiss, we conclude that the motions should be and are hereby denied.

Convenience and Necessity

[4] This petition is presented pur-

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suant to § 31 of Act 342 of the Acts of 1937 (Arkansas Statutes 1947 Annotated, § 77-1131) which provides: "Exemption from jurisdiction of Public Service Commission — Certificate of convenience and necessity — Fee. — All corporations organized under this act (77-1101—77-1136) shall be exempt in any and all respects from the jurisdiction and control of the Department of Public Utilities (Public Service Commission) of this state, except said corporations shall secure from the Department of Public Utilities (Public Service Commission), before construction or operation is begun, a certificate of convenience and necessity for the construction or operation of any equipment or facilities for supplying electric service in rural areas."

From the above quotation it is apparent that the jurisdiction of this Commission is limited to determination of whether a certificate of convenience and necessity shall or shall not be issued to Arkansas Electric.

Convenience and necessity is not defined under Arkansas statutes, and the Arkansas supreme court has consistently adhered to a policy that it is a question of fact in each case. This Commission should determine the benefits that will accrue from granting a certificate, in relation to the harm that will accrue from the granting of a certificate. This will require a determination of benefits to present and prospective users of a utility service, as well as the effect of the granting of a certificate to existing suppliers of a utility service. The result upon the people at large is also a matter for consideration by this Commission. *Department of Public Utilities v. Ar-*

kansas Louisiana Gas Co. (1940) 200 Ark 983, 36 PUR NS 41, 142 SW2d 213; *North Little Rock Transp. Co. v. North Little Rock* (1944) 207 Ark 976, 184 SW2d 52; 50 Yale Law Journal 875.

Financing the Construction

Arkansas Electric has secured a loan commitment from the Rural Electrification Administration in the amount of \$10,558,000 to finance the construction of the facilities proposed in its petition. This is the same type of loan that REA has made to the three distribution co-operatives and other rural electric co-operatives in Arkansas. The loan is to be amortized over a period of thirty-five years and bears interest at the rate of 2 per cent per annum.

Arkansas Electric presented detailed exhibits showing construction costs below the amount of the loan. These exhibits also made provision for escalation of price increase and contingencies that normally occur in the building industry.

The intervening power companies submitted exhibits showing higher construction costs for the steam power plant than the costs shown in the exhibits of Arkansas Electric. The record shows the power plants constructed or under construction by the intervening power companies in this area to be substantially below the proposed construction costs for Arkansas Electric. The interveners did not challenge the proposed construction costs of the transmission facilities.

We are of the opinion that the forecasts of construction costs by Arkansas Electric are reasonable.

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Fuel Supply

Arkansas Electric proposes to build a steam power plant that is designed to burn coal, natural gas, or fuel oil. The plant will be located in an area of vast coal reserves.

The Arkansas Power & Light Company is the only intervener which has any major steam generating facilities within the state of Arkansas. All of the major power plants of AP&L are designed and operated to use natural gas as the primary fuel and switch to fuel oil when the gas supply is interrupted. With the exception of the Harvey Couch plant of the AP&L located at Stamps, Arkansas, natural gas is delivered by large transmission lines emanating from Louisiana and Texas. The major portion of the fuel used in the steam power plants of AP&L originates in Louisiana or Texas.

The record clearly indicates that there has been a substantial increase in the cost of natural gas in recent years, and it appears that the cost of coal to Arkansas Electric will be competitive with the cost of gas to the more recently built power plants of the AP&L.

The location of a power plant in the vicinity of Ozark, designed to burn coal, which will be stockpiled in large quantities, will give security of operation that would not be available if the power plant had to rely on natural gas imported long distances through transmission lines. In the event of a national emergency there is much less danger of sabotage to a power plant in the heart of a coal field supply compared to a power plant receiving fuel over great distances through natural gas lines, which may be severed at innumerable points.

The power plant at Ozark will cre-

ate a market for a very substantial quantity of coal to be produced in the area. Witnesses for Arkansas Electric testified that this new outlet for approximately 11,000 tons of coal per year will have a very beneficial effect upon the coal industry of western Arkansas.

Looking at the general economy of the state of Arkansas, as we believe we should do in determining the issues in this case, as we see it, the citizens of Arkansas will benefit from the production and sale of coal to the Ozark power plant.

Ozark is near the load center of the three distribution co-operatives. It appears to this Commission that the construction of a generating station within the electric load center of the three distribution co-operatives and the construction of shielded high-voltage transmission lines designed to carry the co-operative loads will result in fewer power interruptions and will provide better service at the co-operative's load centers than the service from existing suppliers where their generating facilities are located more than 100 miles distant and where their transmission lines must carry not only the co-operative's load but also the loads of the utilities' own customers.

Operating Expenses

Detailed exhibits and testimony were introduced by petitioner and the interveners with reference to the operating expenses of the power plant. These estimates were in substantial variation, and our opinion is that no one can foresee with any accuracy the exact cost of labor and other items that enter into operating expenses five or more years from now. The Commission recognizes that all power

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plants, whether operated by petitioner or the intervening power companies, must pay competitive wage rates in order to secure competent personnel.

The operating expense that will be experienced in the future by all suppliers will be the result of economic conditions, rather than any act of regulation by this Commission or any final determination by the owners and operators of the plants themselves.

Cost of Power to the Distribution Co-operatives

The testimony and exhibits of witnesses for Arkansas Electric showed substantial savings in the cost of wholesale power to the three distribution co-operatives. These costs were based upon analyses made under written proposals submitted by the intervening power companies several months ago. The intervening power companies introduced testimony and exhibits to the effect that the co-operatives would not receive a reduction in their wholesale power costs but would actually experience an increase.

After careful consideration, the Commission is of the opinion that Arkansas Electric will supply power to the distribution co-operatives as proposed in this hearing at a cost below the present charges of the intervening power companies or below any offers of the intervening power companies.

The Need for Additional Generation and Transmission Capacity

[5,6] The record in this case fully reflects that the transmission systems of the intervening power companies located in northwest Arkansas must be strengthened or other lines built to carry the increased electrical load in this area. It is readily admitted that

in the state of Arkansas much more generation than is shown in this application is required to meet the growing demands of the state. Additional transmission lines and generating facilities are absolutely necessary to the electrical requirements in northwest Arkansas as well as in the entire state of Arkansas. This conclusion is confirmed by the present plans of expansion described by the intervening power companies. Convenience and necessity definitely demands additional generation and transmission facilities. Under the laws of this state and under the showing in this hearing, we cannot deny the farmers in this area the privilege of building their own facilities to serve themselves, and by such denial require that they take power from the intervening power companies. We are of the opinion that the general public will be materially aided by the construction of the facilities proposed in this petition, and more particularly the rural people in the northwest part of Arkansas, that no great harm will be suffered by anyone, and that the general economy of the state will be promoted by such construction.

In considering this question we must look to the rights and privileges of the intervening power companies. The OG&E has all of its generating facilities within the state of Oklahoma and only comes into Arkansas with enough property to transmit the electricity it wishes to sell in this state. The SWG&E, with headquarters at Shreveport, Louisiana, also has all of its generating facilities without the state of Arkansas. These companies, however, are validly operating within the state of Arkansas, and this Commission feels that every dollar of in-

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vestment they have in this state should be zealously guarded and protected by this Sovereign from dissipation or waste, and if we should find from this record that the building of the generating plant and transmission facilities would injure any of the intervening power companies to a greater degree than it helps Arkansas Electric and other beneficiaries of the petition, then the certificate should be denied.

Let us examine the record as reflected in the annual reports filed by the intervening power companies for the year 1950 with this Commission, and incorporated into the record in this case, to see what part of the great system of the intervening companies which operate in this area are affected by this order. Only about 10.7 per cent of the electrical properties of SWG&E and OG&E are located in the state of Arkansas, and only about .31 per cent, or less than one-third of one per cent, of the electrical sales of these two interveners is purchased by the distribution co-operatives affected by this petition. Looking to the possible harm that could come to the intervener AP&L, we fail to find where this great electrical empire could be injured since only about .14 per cent, or less than one-fifth of one per cent, of the electrical sales made by the company are involved in this application. The AP&L is now engaged in a vast program of expansion, and it will spend many millions of dollars within the next few years expanding its electrical facilities. The small amount of business involved in sales to the co-operatives participating in this proceeding could not possibly be of material injury to the intervening companies.

Witnesses for the intervening power

companies have stated that the sales by their companies to the rural electric co-operatives have been made at rates that do not allow a fair rate of return, and therefore the loss of the wholesale power business to the three distribution co-operatives could not be prejudicial to the financial condition of the companies.

Since the hearing began on this application, AP&L has filed a petition for a certificate of convenience and necessity to build an additional 105,000-kilowatt generating plant near Hot Springs, Arkansas. Surely this company appreciates the need for additional power in Arkansas, or its application would not have been filed.

The interested farmers in northwest Arkansas appeared before this Commission and testified that they did not want to be dependent upon the power companies for their source of generation, and that for a long time they have planned and hoped that they could have their own generating facilities. This petition is the culmination of their hopes and plans for being independent in pursuit of their right to generate the power required for the farmers served by the co-operatives, and is a natural continuation of an admittedly successful rural electrification development in Arkansas. The facilities proposed to be built are designed to serve the member co-operatives and will be adequate for such service.

Monopoly

The granting of a certificate to Arkansas Electric in our opinion is in harmony with Art 2, § 19, of the Constitution of the state of Arkansas, which provides: "*Perpetuities and monopolies* — Perpetuities and mo-

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nopolies are contrary to the genius of a republic, and shall not be allowed; . . .” This section of the Constitution has been reaffirmed by the Arkansas supreme court in the case of the Department of Public Utilities v. Arkansas Louisiana Gas Co. *supra* ([1940] 200 Ark 983, 36 PUR NS 41, 46, 142 SW2d 213), wherein the court said: “In this connection we think it proper to observe that the transportation and distribution of natural gas is a business that should not be immune from competition, under certain conditions, rather than a regulated monopoly.”

In the case of North Little Rock Transp. Co. v. North Little Rock, *supra* ([1944] 207 Ark 976, 981, 184 SW2d 52), the Arkansas supreme court, in reviewing the constitutional prohibition against monopoly, stated: “This language is too clear to need elucidation, and no amount of judicial interpretation should ever be permitted to cause the slightest deviation from clear language of the constitutional inhibition . . .”

In this same unanimous opinion the court, 207 Ark at p. 983, continued: “It is a question of fact in each case as to how public convenience and necessity may best be served, and competition is mandatory when public convenience and necessity can best be served thereby . . .”

Conclusion

The Commission has give full consideration to the many issues and arguments presented in this case. The Commission is of the opinion that Arkansas Electric should be granted a certificate of convenience and necessity to construct the generating and

transmission facilities described in its petition inasmuch as the record reflects that the public interest would best be served thereby.

It is therefore *ordered* that:

A certificate of convenience and necessity be and is hereby granted to Arkansas Electric Co-operative Corporation to construct, maintain, and operate a 30,000-kilowatt steam electric generating station near Ozark, Arkansas, and a certificate of convenience and necessity is hereby granted to construct and operate, through lease, approximately 544 miles of 69-kilovolt transmission lines with appropriate substation facilities.

Wood, Chairman, dissenting: I am unable to agree with the findings and opinion issued by the majority of the Commission and am therefore forced to dissent from its order.

Arkansas Electric Co-operative Corporation (hereinafter referred to as “applicant”) requests the Commission to issue it a certificate of convenience and necessity authorizing it to construct, maintain, and operate (a) a 30,000-kilowatt steam electric generating plant, and (b) 544 miles of 69-kilovolt transmission lines and twenty-two step-down substations. The cost of both the generating station, transmission lines, and related facilities is estimated to be in excess of \$10,000,000.

There is no dispute about the use which the applicant proposes to make of the facilities if they are constructed. The entire output of the generating station for a period of forty years is to be sold to SPA and delivered into its transmission system, extending from southeast Missouri through the state of Arkansas, into Oklahoma,

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thence on into Texas. This transmission network of SPA connects with the hydroelectric facilities owned by the Federal government and operated by its Department of the Army located at Norfolk dam and Bull Shoals in Arkansas, Dennison dam in Texas, and probably other dam sites. The generating station is to be operated as a base load at an 85 per cent load factor and its output will enable SPA to have additional firm power for sale in excess of that generated at said hydroelectric projects.

The 544 miles of transmission lines will be tied in with SPA's transmission network and are to be located so as to transmit electric energy to points of delivery to the three local rural electric distribution co-operatives, the aggregate maximum demand of which in the year 1950 was less than 10,000 kilowatts and said maximum demand in 1959, it is estimated by applicant's witnesses, will approximate 28,000 kilowatts.

The three distribution co-operatives operate on less than a 50 per cent load factor.

The arrangements and contemplated use of the facilities are set forth in two separate contracts by the SPA and the applicant introduced in this record. Under one contract, applicant proposes to sell and SPA to purchase electric energy generated by said plant. Another section of this same contract provides that SPA sells to the applicant and delivers to the three distribution co-operatives their requirement of electric power and energy. The price at which this energy will be sold by SPA is based upon what is known as SPA Rate "A," which is a temporary rate put into effect with the

approval of the Federal Power Commission, and is subject to re-examination at any time and will be re-examined under the orders of the Commission not later than February, 1953.

The 544 miles of transmission lines are by a separate contract leased to SPA for a period of forty years. As a consideration for this lease, SPA is to maintain the lines, operate them, pay the interest due upon funds borrowed for their construction, and, in addition, a sufficient amount to amortize the investment in them over a period of thirty-five years. SPA has the right to purchase those lines at any time for the balance due thereon, and when their debt is amortized, it has the right to purchase for the consideration of \$10.

The conclusion is irresistible from the uncontradicted testimony that the proposed electric generating station and transmission lines are for the use and benefit of SPA, that the carrying capacity of the transmission system with additional points of connection which SPA plans to make will be approximately four and one-half times the projected 1959 loads of the three co-operatives, and that the capacity of these lines in excess of the requirements of the distribution co-operatives will be used by SPA to serve any customers whom it may choose to serve in northwest Arkansas and who will use electric power and energy in wholesale quantities.

The record further shows that SPA's Norfolk-Dennison transmission lines serve as a main collection bus for the hydroelectric power and energy generated in that area and that the power and energy generated by the proposed steam plant will be taken in-

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to this same collection bus, intermingled and transmitted with hydro power and used to serve any customer who desires service from the United States Government. And, further, the testimony is conclusive that SPA may serve any customers through the transmission lines which applicant proposes to construct and lease whom it may choose to serve in wholesale quantities.

SPA is an agency of the United States Government, created and authorized to sell only the surplus hydro power generated by the hydro facilities owned by the government. More will be said later of the authority of SPA.

Several years ago SPA undertook to secure appropriations from Congress for the purpose of building generating plants throughout Missouri, Arkansas, Oklahoma, and Texas, the plan being that the generating plants would supply the firm power and that the hydro projects would supply peaking power. Congress unqualifiedly turned down this appropriation.

Applicant was organized under Act 342 of the Acts of the General Assembly of Arkansas, 1937 (§§ 77-1101-77-1136, Ark Stats). Applicant was organized by Arkansas Valley Electric Co-operative Corporation, Ozark, Arkansas, Carroll Electric Co-operative Corporation, Berryville, Arkansas, and Ozarks Rural Electric Co-operative Corporation, Fayetteville, Arkansas. The three distribution co-operatives were all organized under Act 342 and are providing electric service in west and northwest Arkansas under authority of certificates of convenience and necessity granted by this Commission. The three distribution

co-operatives have entered into contracts with the applicant to purchase their requirements through applicant from SPA for a period of forty years.

The applicant has a conditional contract with the Rural Electrification Administration whereby the Administration, an agency of the United States Government, will furnish funds for the construction of the generating plant and the 544 miles of transmission lines. One of the provisions of the loan contract is that it will not advance any funds unless and until the contracts between the applicant and SPA of the general nature and tenor as above outlined are executed.

The Applicant Does Not Have the Corporate Power to Do the Things It Proposes to Do and Seeks Authority to Do

The petition requests the certificate for the express purpose of allowing applicant to build and operate the plant for the purpose of selling and delivering the entire output thereof to SPA.

It is the contention of the interveners that since SPA cannot qualify as a member of the applicant and is not a corporation organized under said Act 342, that the applicant does not have the corporate power to sell any energy to SPA.

This is a legal question which the Commission must necessarily determine before it can grant a valid certificate. If the applicant does not have the power to sell SPA the entire output of the proposed generating plant, and such power has been withheld from it by the legislature, the Commission may not authorize the applicant to do something which it has no corporate power to do.

While this is a legal question, its

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determination is merely incidental to the final action of the Commission.

It is the duty of the Commission to pass on this question initially. See *Pittsburgh R. Co. v. Public Service Commission* (1934) 115 Pa Super Ct 58, 6 PUR NS 369, 174 Atl 670. Numerous other cases might be cited to the same effect.

While it is true that the applicant in its brief took the position that the Commission had no power to pass on any legal question arising in a proceedings of this character, it apparently abandoned the position on oral argument.

The majority opinion construes the powers of applicant to be such as would authorize it to sell the output of the plant to SPA. With this conclusion I cannot agree.

As before indicated, the applicant is a corporation organized under Act 342 of the Acts of 1937. The legislature was specific and particular with respect to the powers conferred upon a corporation under that act.

Section 4(4) of the act authorizes such a corporation to furnish and dispose of electric energy to its members only. Section 4(6) authorizes it to furnish electric energy to other corporations organized under the act or to the members thereof.

These provisions are definite limitations upon the powers of the applicant.

Since the legislature has explicitly and expressly set out the corporate powers of applicant, those powers not mentioned in the act are denied to corporations organized under it. The maxim *expressio unius est exclusio alterius* applies. See *Cook v. Arkansas-Missouri Power Corp.* (1946)

209 Ark 750, 192 SW2d 210; 7 Fletcher, Cyc. on Corporations, § 3648, and 19 CJS, § 948f, p. 382.

The Arkansas supreme court in construing Act 342 in *Arkansas-Louisiana Electric Co-operative v. Public Service Commission* (1946) 210 Ark 84, 64 PUR NS 292, 194 SW2d 673, has held that co-operatives organized under the act may serve members only and are confined in their operation to rural areas as defined in the act. In that case the court had no occasion to discuss other limitations of the act, but as to the two mentioned, it expressly gave effect to the language of the act, and, of course, it would do the same with respect to the limitation that it can serve only other corporations organized under the act or their members.

I am of the opinion that the applicant has no power to sell the entire output of its proposed plant to SPA, and for that reason the application for the certificate to build the plant should be denied, since SPA cannot qualify under any of the requirements of Act 342, is not a member of the applicant, is not a corporation organized under the act—in fact, is not a corporation at all, but merely an administrative agency of the Federal government.

SPA Lacks Authority to Buy the Power Generated by the Proposed Plant

SPA's authority is granted by the Congress and is set out in § 5 of the Flood Control Act of 1944.

Without quoting from the act, the authority conferred is confined to the sale of hydro power. It does not in any way relate to steam generated power or give any authority for the purchase and sale of such power.

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Our system of government is dual in character. The Federal government possesses only such powers as are expressly enumerated and delegated to it under the provisions of the Federal Constitution. All other powers, in the language of the Tenth Amendment, are "reserved to the states respectively or to the people." The only authority vested in the Federal government to generate power and energy is that stated in Art I, § 8, the Commerce Clause, of the Federal der the disposal clause of the Congress "shall have the power to regulate commerce with foreign nations and among the several states and with the Indian tribes." The Federal government under this express grant of power may constitutionally build structures for the control of floods and the improvement of navigation and if, in the building of such structures, there is created water power which may be converted into hydroelectric power and energy, such may be lawfully generated by the government. When so generated this power and energy becomes property of the government and may be disposed of under the Disposal Clause of the Constitution, Art IV, § 3, which expressly grants to Congress the power to dispose of and make all needful rules and regulations respecting the territory or other property belonging to the United States.

Since the power and energy created by the force and flow of water impounded by government dams is property "belonging to the United States," Congress has the power to dispose of it or to direct how it should be disposed of just as it did in § 5 of the Flood Control Act. There is no con-

gressional authority which can be stretched by the most liberal construction so as to authorize SPA to buy power for the purpose of selling it or to construct plants to generate power by steam for the purpose of selling such power. The record of this case shows, as heretofore mentioned, that SPA requested the government to make appropriations for the purpose of constructing generating plants and transmission lines, which request the Congress denied.

The record is conclusive that the power generated at this plant operated as a base load plant on an 85 per cent load factor would be far in excess of the requirements of the three distribution co-operatives and that the proposed transmission lines would have a carrying capacity of four and one-half times the requirements of these co-operatives.

The Administrator of SPA frankly admitted on the witness stand that the government would sell this excess power to any customer it might choose provided the customer would purchase in wholesale quantities, and stated that what "wholesale quantity" is is probably the \$64 question.

He frankly admitted that he would not agree not to use the transmission system leased from the applicant for the purpose of selling energy to customers of the interveners who might take in wholesale quantities.

SPA is as much interested in this proceedings as the applicant and it is necessary for the Commission to decide whether SPA has authority and the legal capacity to do the things which it proposes to do under its contract with the applicant.

In my opinion it is clear that SPA

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does not have such authority, and that the Commission should so declare.

Since SPA does not have the authority to purchase the output of the proposed generating plant and since such a sale is the only use which applicant proposes to make of such output, the certificate should be denied.

Because of the opinion expressed above, I cannot agree that the arrangements proposed by the SPA and the applicant are compatible with the Flood Control Act.

Applicant has argued that the intervening companies under their so-called wheeling contracts with SPA have sold power to the government and that their position in the present proceedings is inconsistent with their position in the wheeling contracts. In my opinion such a position cannot give SPA power that Congress has withheld from it.

In my opinion the wheeling contracts referred to are legal and proper, and in fact the only way without the great expense of constructing its own transmission lines that the government is able to deliver its hydro power to the customers whom the Congress has designated as favored customers. As I understand these wheeling contracts, this is the way they operate: The government sells all or a large portion of its hydro power generated at one of its dams. As a part of the consideration for such sale, the purchaser agrees to transport (wheel) over its own transmission lines and deliver to a co-operative or other customer of the government a quantity of power (less than the quantity purchased by the company from the government) at a point designated by the

government on the transmission lines of the purchaser.

Under the wheeling contract SPA, in effect, says to the purchaser of its hydro power: "I have a favored customer whom I desire to serve, but cannot deliver my hydro power to him because I have no transmission lines to carry the power to him. You have transmission lines which will reach my customer. I will sell this hydro power to you and turn it into your integrated system if you will agree to deliver to my customer the power which I have agreed to sell him." Such an arrangement cannot be compared to applicant's contract with SPA.

The legislative history of the Flood Control Act and the REA Act shows plainly that the sponsors of these acts and other members of Congress who took part in the discussions before the several committees intended that the government's hydro power should be carried over the privately owned transmission lines.

In my opinion the wheeling contracts furnish a proper means of disposing of the government's hydro power under the provisions of § 5 of the Flood Control Act so long as SPA does not dispose of a greater quantity of power than the hydro power delivered to it at the dams for disposal.

It has been argued that by refusing to enter into reasonable contracts the private companies have it in their power to force the government to sell its hydro power as "dumping power" at a price which will not pay for the construction of the government's hydro facilities. It seems to me that Congress has the power to prevent such results by authorizing the SPA to construct its transmission lines for

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the delivery of its hydro power to its own customers and that this controversy between the SPA and the private utility companies should be settled by Congress if it cannot be settled by voluntary agreement of the parties. The record shows that the intervening companies have offered to buy all of the surplus power and energy generated at the Arkansas dams which are now in operation at a price higher than that which is being paid by the co-operatives.

Motion to Dismiss

The interveners filed a motion in this cause to dismiss the application on the grounds that the applicant did not have the authority and power to sell the entire output of its plant to SPA and that SPA did not have the authority and power to purchase such output.

It is my opinion that this motion is well taken and should have been sustained.

Convenience and Necessity

The majority of the Commission, after disposing of the matters heretofore under discussion contrary to the views which I have expressed, proceeded to find that the public convenience and necessity required or will require the construction and operation of the proposed facilities as heretofore outlined.

This conclusion, in my judgment, is not sustained by substantial evidence, but is contrary to all of the evidence in the record when its effect is measured by the rules laid down by the courts for guidance of Commissions in this character of proceedings.

The courts, generally, as well as the supreme court of Arkansas, have set

forth the circumstances under which regulatory Commissions may grant certificates of convenience and necessity to operate in fields already occupied by others.

In *Missouri P. R. Co. v. Williams* (1941) 201 Ark 895, 902, 148 SW2d 644, the supreme court said: "The general rule is that a certificate may not be granted where there is existing service in operation . . . unless the service is inadequate or additional service would benefit the general public, or unless the existing carrier has been given an opportunity to furnish such additional service as may be required."

This same rule was reaffirmed in *Taylor v. Black Motor Lines* (1942) 204 Ark 1, 160 SW2d 859.

In substance, the foregoing rule has been announced by many courts and is now rather universally followed by regulatory commissions.

It also appears that the most important factor for determination in proceedings of this nature is whether the territory is already adequately and reasonably served.

The undisputed testimony in this case is that the service furnished by the interveners to the three distribution co-operatives is adequate and is efficient at rates which are lower than the rate which will be applied by SPA under the proposed contract unless we find that a substantial profit will be derived from the sale of power and energy under the proposed contract. The present rates are lower, generally, than REA co-operatives enjoy in other parts of the nation. In fact, in oral argument the applicant did not attack the present service or the ability of the

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present suppliers to supply adequate service.

Competition

It has been argued that competition caused by the government sale of power and energy has been in the public interest and has done considerable good in Arkansas in lowering the rates of the power companies to the co-operatives. In my opinion, this is true. In considering this question, however, we should not lose sight of the fact that the sale by the government of power and energy generated by impounded waters is authorized under the disposal clause of the Constitution, and in the Flood Control Act the authority to sell is limited to the quantity of hydro power generated at the dam. The difference between the sale of hydro power as government property and the creation and purchase of steam power for sale by the government is too clear to require any argument. The former is legitimate disposal of property; the latter is contrary to the will of Congress and of the Arkansas legislature, and the established policies of this Commission.

It has been suggested that the government cannot offer much competition since its hydro power is only about 15 per cent of the requirements of the area and it would acquire under the contract with the applicant only the output of a 30,000-kilowatt plant. In a case of this kind, the controlling consideration should be the potentialities of the situation and in this connection it must be remembered that the comprehensive plan presented by SPA to Congress, which it did not approve, called for the construction of steam-generating plants. The record further shows that there are now

plans under way for other co-operatives to build other generating plants under plans similar to the one offered in the present case.

If the co-operatives were successful in securing steam-generating plants for the use of SPA and this Commission commits itself to that policy, the only limitation on the number of plants constructed would be controlled by the desires of SPA for steam-generated power.

Importation of Power

The majority called attention to the fact that a considerable portion of the power consumed in Arkansas is generated in other states. I consider this question immaterial. The question before this Commission is whether there is available adequate power at reasonable rates, and the record shows that there is. The present suppliers, as well as the public of Arkansas, should not be penalized because the state does not have an abundant supply of cheap gas.

This Commission and the legislature have known for many years that large quantities of power were coming from plants at or near large gas fields in other states. No objections have been offered to this procedure. The record shows that the savings in low cost of generation by the construction of such plants near gas fields in other states is not offset by the transmission losses when the power and energy is carried over distances up to 300 miles.

It is suggested that Arkansas does not have sufficient reserve of power on hand to attract power-consuming industries. The record shows that the area in question, considering the government hydro power available

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there, has one of the most abundant supplies of electric energy in the entire country or will have in the near future, and that much power will necessarily have to be exported out of the area.

Monopoly

The section of the Arkansas Constitution which condemns monopolies does not take away the power to regulate public service companies under the police power of the state. It has been the policy, declared by our Utility Act, adopted and followed by this Commission, that regulated monopolies are desirable over wasteful duplication of facilities and ruinous competition which is inimical to, rather than beneficial to, the public interest.

Duplication of Facilities

It was admitted by all witnesses who undertook to testify in the matter on the question that if one utility had transmission lines and power adequately to serve a territory and another company ran lines to serve the same customers, such would be a duplication. In my opinion, the 544 miles of transmission lines proposed to be built will duplicate lines now adequately serving the area.

Although conceding that the limited competition brought about by the legitimate sale of government-owned hydro power has been beneficial, I deny that it will be beneficial to allow the government to go into the business of buying power for sale, which practice would lead to an all-out competition by the Federal government. In such a case the word "competition" would be a misnomer, for "no man can compete with his sovereign."

The Applicant Has Failed to Prove That the Public Convenience and Necessity Require the Granting of the Certificate

The record shows that the rate at which the distribution co-operatives are presently receiving power is one of the lowest in the country and is less than the rate which they will have to pay for power they will purchase under the proposed arrangements; that the service is adequate and at reasonable cost; that the outages on the line of the rural electric co-operatives were largely due to unavoidable casualties such as ice and storm.

Applicant failed in its effort to prove low-voltage regulation on the companies' lines and that point was abandoned. No complaint was ever made to the companies or to this Commission that would indicate inadequate service.

The only calculation by which a savings is shown to result to the distribution co-operatives is based on the estimates of applicant's engineers that the applicant will receive a substantial profit by its proposed sale of power to SPA over and above cost of operating its plant, interest on the money invested therein, and the repayment of the borrowed funds. Whether such a profit will result is too uncertain and depends on too many contingencies for a regulatory Commission to accept. In this period of extreme inflation, it is very difficult to forecast the cost of constructing the plant. It is not certain at this time what the distribution co-operatives will have to pay for electric energy under the proposed arrangements.

Conclusion

I am unwilling to give approval to

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a contract that is ultra vires and which is contrary to the will of the Arkansas legislature as expressed in the Rural Electric Co-operative Corporation Act, and against the will of Congress ex-

pressed by its denial of SPA's requested appropriations, the Flood Control Act, and the legislative history shown by the exhibits relating to the REA Act and the Flood Control Act.

IDAHO PUBLIC UTILITIES COMMISSION

Re Interstate Telephone Company

Case No. U-1002, Order No. 2099

October 2, 1951

APPPLICATION of telephone company for authority to increase rates; modified rate increase authorized.

Valuation, § 36 — Telephone rate base — Average investment for preceding year.

1. A telephone company's average investment for the preceding year was not considered an acceptable rate base inasmuch as an investment level which is more than a year old bears no relationship to the actual conditions as they now exist or will exist in the future during the time in which the new rates would be in effect, p. 29.

Apportionment, § 61 — Telephone property — Capital structure basis.

2. The capital structure basis for determining value of telephone property, by allocating to a state the total capital structure on the basis that the net plant investment in that state bears to the total net plant, is not acceptable in that this method does not assign any portion of the capital structure other than to operating properties and can in no way be related to the actual original cost of the properties, p. 29.

Valuation, § 49 — Rate base — Appraised value basis.

3. The appraised value basis for computing the rate base of a telephone utility, which would involve increasing all the units of plant, as they are carried on the continuing property records, to the present cost of plant construction, is not acceptable where it is not related to the actual conditions of plant by determining through observed depreciation studies what depreciation has occurred in the plant, p. 29.

Valuation, § 36 — Average original book value.

4. The rate base of a telephone utility was computed by taking the average original book value of the property plus an increment representing the amount intrastate investments per station actually increased during the test year, p. 29.

Return, § 16 — Reasonableness — Telephones.

5. A telephone company's earnings should be sufficient to enable it to pay a reasonable return and to guarantee reasonable security to its investors, p. 30.

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Return, § 111 — Telephones.

6. A telephone company was allowed a rate increase so that it would earn a return of 6.5 per cent on an average original cost rate base, p. 31.

By the COMMISSION: This proceeding was instituted by the Interstate Telephone Company, an Idaho corporation, by the filing of an application for a revision of its basic local exchange rates; revision of supplemental service charges; revision of service connections charges; and revision of intrastate intracompany toll charges (in accordance with tariffs filed in connection with that application) as evidenced by exhibits on file herein.

Due and legal notice of the hearing of said application was given by the Commission as appears by the records and files and in accordance with the statutes, rules, and regulations applicable thereto.

Said matter was regularly set for hearing at Coeur d'Alene, Idaho, on May 22, 1951, at 10 o'clock A.M. in the district courtroom for the taking of testimony and the presentation of all evidence in support of, or in opposition to, said application, when and where all cross-examination, all rebuttal evidence, and argument of counsel would be heard. Reference is hereby made to said notice of hearing.

The entire Commission was present with President H. N. Beamer, presiding and the following appearances were entered: William S. Hawkins, Attorney at Law, Coeur d'Alene, appearing on behalf of the applicant, Interstate Telephone Company; R. E. Larsen, Auditor, Idaho Public Utilities Commission, Boise, appearing on behalf of the Commission; John Mathews, Charles Tilford, R. G. Binyon, and Harry Magnuson, appearing

on behalf of the Wallace Chamber of Commerce, Wallace; Howard Snead and Warren Truesdell, appearing on behalf of Bonners Ferry, intervenors; Cope R. Gale, Attorney at Law, appearing on behalf of St. Maries Chamber of Commerce, intervenors; Roy Morris, appearing on behalf of the Kellogg Chamber of Commerce, intervenors; James Brady, appearing on behalf of the Sandpoint Chamber of Commerce, intervenors.

The applicant, following an opening statement, presented both oral and documentary evidence in support of its application and furnished such additional information and evidence as was requested by the Commission. The witnesses were cross-examined by those intervenors who desired to do so and oral protests to service were made by Warren R. Truesdell and Cope R. Gale. No other evidence was offered by, or for, the intervenors, or in opposition of the application or the exhibits offered in connection therewith.

Motion for continuance and motion to reject the application of the company was made, considered, and denied. Whereupon, the matter was submitted to the Commission and taken under advisement.

Corporate Structure

The Interstate Telephone Company is an Idaho corporation, organized and existing under and by virtue of the laws of the state of Idaho, with its principal place of business and post-office address at 165 South Howard street, Spokane, Washington. The

RE INTERSTATE TELEPH. CO.

Interstate Telephone Company is a part of the General Telephone System, which is the largest independent telephone system in the nation; General Telephone Company exercises a 61.12 per cent ownership of Interstate Telephone Company, and is sole owner of the common stock.

The Interstate Telephone Company operates a general telephone, local, and long-distance business in the states of Washington, Idaho, and Montana. It furnishes long-distance telephone service within its own territory, through its own facilities and nationwide long-distance telephone service through connection with the Bell Telephone System.

The Interstate Telephone Company is a public utility under statutes of the state of Idaho, and comes under the jurisdiction of this Commission.

Rate Base

[1-4] The applicant presented in this proceeding several different bases as to the value of its Idaho investment in telephone plant as follows:

(1) Average investment less allocated average depreciation reserve for the twelve months ending December 31, 1950.

(2) Average capital structure for the twelve months ending December 31, 1950.

(3) Current cost investment less the allocated depreciation reserve for the period ending December 31, 1950.

(4) Appraised value investment as of December 31, 1950.

(5) Actual book investment less allocated depreciation reserve as of December 31, 1950.

If we were to use as our base the average investment for the year 1950, we would assume an investment level

that is more than one year old. We do not believe that it would be wise to use such a base as it would bear no relationship to the actual conditions as they now exist, or as they will exist in the future during the time in which the rates will be in effect. While the record shows that the proposed rates would produce a given return as related to the net investment as it existed a year ago, it also shows that actual known changes in operating conditions in the year that has elapsed would make it impossible for the applicant to realize such a return in the future.

The applicant in its Exhibit No. 17 proposed the capital structure basis for determining value by allocating to Idaho the total capital structure on the basis that the net plant investment in Idaho bears to the total net plant. This method does not assign any portion of the capital structure other than to operating properties and can in no way be related to the actual original cost of the properties.

In Exhibit No. 19, the applicant proposed the appraised value basis for a rate base by increasing all the units of plant as they are carried on the continuing property records to the present cost of plant construction. They did not, however, relate this figure to the actual conditions of the plant as it exists by determining through observed depreciation studies what depreciation has occurred in the plant that they were in the process of revaluating.

During a period of rapidly rising prices and plant expansion, it is difficult, in proceedings of this nature, for this Commission to determine an adequate and reasonable rate base. We must be fair to the utility and to the public, we must use a value that is as

IDAHO PUBLIC UTILITIES COMMISSION

close to the actual original cost of the properties, as is possible at the date the rate became effective. We will, therefore, use as our rate base the average original book value of the properties plus an increment representing the amount the Idaho investment per station actually increased during our test year. This method will raise the average book investment to a period somewhat in advance of December 31, 1950, but will retain the actual book investment as it now exists. We therefore conclude that the rate base on which the Interstate Telephone Company should be allowed a reasonable return is \$3,518,800.

Test Period Adjustments

Our records indicate that during the year 1950, which we will use as our test period, there occurred changes in operating conditions that were not reflected on the accounting records for the full year. In January, 1950, the applicant was granted a rate increase; these increases have been adjusted to a full year basis. Wage increases were allowed during the year and these have been restated to a full year; depreciation expense was increased to reflect a full year on the new dial equipment; Federal income taxes were increased to the 47 per cent level now in effect. The operating statement was revised to restate it at a full year's basis on all revenues and expenses as they were indicated to have occurred at the end of December. These and other adjustments were made to fairly reflect a full year's operation as they were known to exist at the time of the hearing.

Rates

There has been employed for a num-

ber of years what is known as the statewide approach in rate making. This method of telephone rate making which involves and takes into consideration the investment, revenues, and expenses as a whole within the state, rather than on an individual exchange basis, has been generally accepted in regulatory circles, and is the method that has been approved by this Commission. We believe this method is desirable and results in a more equitable distribution of increased charges than any other, and this is especially true during periods of rapid growth in population and telephone facilities.

It is our opinion that the automatic features of the January, 1947, order, as to standard classification of exchanges and the six months' requirements for change from one classification to another based on the sworn statement of the company, should be continued.

Rate of Return

[5] The Interstate Telephone Company operates in the territory of several small scattered exchanges and in the terrain that makes construction and maintenance of plant difficult on a year-around basis. The company, nor this Commission, has any control over the expansion of telephone facilities since the war years, only the requirements of the public for added communication service has governed these requirements. This period of plant expansion has occurred during the period of rapidly increasing prices and has required the applicant to invest additional funds for each station added over that required prior to World War II. This additional investment per station plus the increased cost of maintenance and operation has result-

RE INTERSTATE TELEPH. CO.

ed in increased rates to the public. In order to expand the telephone plant to meet the public demand the applicant was forced to raise the necessary funds to carry on this construction program.

In order to construct additional plant the utility must provide the funds as this Commission will not allow the earnings to be great enough to construct new and additional plant from earnings. The applicant, like any other business venture, must borrow money from the available money markets, by the issuance of its securities. In order to sell these securities it is necessary that the earnings be sufficient to pay reasonable returns and to guarantee reasonable securities to the investors and that such returns will continue into the future. This Commission cannot guarantee that such future returns will exist, nor that the returns we find to be reasonable in this order will be earned in the future by the applicant. The law under which we operate requires that a utility be allowed a fair rate of return on all moneys invested in the utility plant devoted to the public service. To do this the utility must have sufficient revenue to pay all reasonable operating expenses and taxes, to pay its interest charges and dividends with enough retained earnings to be added to surplus that will maintain the surplus account at such a level that will continue the dividend payments during years when this dividend will not be entirely earned.

The applicant, in Exhibit No. 14, presented computations designed to show the cost of money for the company on what it terms its objective capital structure. The objective capital structure as they calculated it was

45 per cent in bonds, 30 per cent in preferred stock, and the remaining 25 per cent in common equities. As we have previously stated it, a utility should retain sufficient earnings that surplus will be maintained at a reasonable level. The applicant has calculated a retention of 30 per cent of earnings to be added to surplus in its calculation of its cost of money. Due to the instability of telephone company revenues, especially the toll portion, it is our opinion that the debt portion of total capital structure would not exceed 50 per cent.

[6] We, therefore, conclude that the objective capital structure of the applicant is reasonable. Based on this method the over-all earning requirements of this utility is 6.998 per cent, due to the high rate paid as dividends on the common stock we think that a 20 per cent retention of earnings is sufficient. With this adjustment the required rate of earnings is 6.5 per cent. This percentage applied to the rate base as it has previously been calculated would require that the utility earn in Idaho \$228,722 of net operating income. The utility had a net operating income for the test year of 1950, after giving consideration to all adjustments of \$173,700. It is therefore apparent that the utility should have a rate increase in the net amount of \$55,122.

If the utility is to retain this amount of money for its own purposes it is necessary that they be allowed increases greater than that amount. The Federal and state income taxes require that we must grant increases greater than that which is necessary, or the utility will not have the rate of earnings that we have found to be reason-

IDAHO PUBLIC UTILITIES COMMISSION

able. Taking into consideration all tax adjustments it will be necessary that we allow the Interstate Telephone Company increased rates that will produce an additional \$111,809.

Findings

Upon consideration of the entire record herein, including the financial exhibits and testimony, the Commission finds:

(1) The Interstate Telephone Company is engaged in the business of furnishing telephone service for hire within this state, and is a telephone company and public utility, and as such is subject to this Commission's jurisdiction.

(2) The applicant received a rate of return during the year 1950 that is not confiscatory, but failed to produce sufficient revenue to produce a fair return on the Idaho rate base.

(3) That the applicant is entitled to a fair return on the rate base of \$3,518,800. Said amount represents the average original cost of the company's property devoted to telephone service less the allocated depreciation reserve plus working capital, an increase to bring the rate base near to the date of this order as we have heretofore determined it. That a rate of return of 6.5 per cent on this base is fair and reasonable.

(4) That the applicant should be allowed additional revenue in the amount of \$111,809.

(5) That the classification for ex-

changes for basic exchange rate should be as follows:

Group I	1	200
Group II	201	400
Group III	401	1,000
Group IV	1,001	2,000
Group V	2,001	3,500
Group VI	3,501	5,000

ORDER

It is therefore *ordered*, that the tariffs attached to the application in this proceeding be denied, and that the applicant submit for the Commission's approval tariffs that will increase revenues in the amount of \$111,809.

It is *further ordered*, that these rates and charges become effective as to toll rates on the date of the filing thereof, and as to exchange rates on billing dates subsequent to the filing thereof.

That the Commission anticipates that the increased schedule of rates will result in an approximate return of 6.5 per cent on the rate base set forth herein. The Commission herewith specifically retains jurisdiction for one year from the date of this order for further study and consideration.

It is *further ordered*, that the Interstate Telephone Company shall furnish this Commission reports of revenues, operating expenses, and investment in telephone plant for the state of Idaho each month as soon as may be reasonable and practicable after the end of each calendar month.

It is *further ordered*, that the classification of exchanges for basic exchange rates to be as set forth in the findings hereof.



Industrial Progress

A digest of information on new construction by privately managed utilities; similar information relating to government owned utilities; news concerning products, supplies and services offered by manufacturers; also notices of changes in personnel.



Philadelphia Electric Plans \$365,000,000 Program

THE PHILADELPHIA ELECTRIC COMPANY and its subsidiaries are planning construction expenditures estimated at \$365,000,000 for the six-year period, 1951 to 1956. Of this amount, approximately \$46,000,000 was spent in 1951, and it is planned to spend approximately \$75,000,000 next year.

New Sound Filmstrip for Supervisory Training

A NEW sound filmstrip and record program for supervisory training in industry and schools entitled "Straight from the Horse's Mouth," has been published by National Foremen's Institute, Inc., New London, Connecticut.

The program, which can be shown on any sound slide equipment, concerns itself with one of the great problems of management, "motivation," or how supervision can get employees to do what management wants them to do.

The publishers state that this is the first film in a planned series, "Skill in Handling People," resulting from actual field research and the answers to questionnaires circulated to industry.

The program is priced at \$69.50, and includes the film and record, a conference leader's outline, and 25 illustrative pamphlets so that viewers may more productively follow and retain the lessons taught.

South Carolina Elec. & Gas to Start Large Building Program

CONSTRUCTION for the first two units of a huge new steam generating plant with an ultimate capacity of 300,000 kilowatts is scheduled to start within sixty days at a site on the South Carolina side of the Savannah river four miles south of Augusta, Georgia, S. C. McMeekin, president of the South Carolina Electric & Gas Company, announced recently.

The plant is slated to begin operation with completion of the installation of the first of two 75,000 kilowatt generators in April, 1953. The second unit will commence operations three months later.

Cost of the first two units with a capacity of 150,000 kilowatts is estimated at \$25,000,000 and the complete plant will come to about twice that amount.

Mr. McMeekin said that detailed designs for the new plant have been completed, the project financed, and the initial two generators have

been on order with the General Electric Company for some time. The plant will be built on the most modern lines for maximum efficiency of operation. Designed to burn pulverized coal it can be adapted to burn oil, if necessary.

Public Service Elec. & Gas Boosts 3-Year Program

PUBLIC SERVICE ELECTRIC & GAS COMPANY has raised its projected construction expenditures to \$200,000,000 for the years 1951 through 1953, according to a recent announcement.

Earlier this year, the total for 1951 through 1954 was placed at \$100,000,000, of which \$55,000,000 was to be spent in 1951. The new three-year program will boost postwar expansion costs to \$379,000,000.

Present plans call for additions to generating capacity amounting to 475,000 kilowatts. This will increase the New Jersey system's capacity to more than 2 million kilowatts, nearly double the total at the end of World War II.

Expansion of electric transmission, distribution and substation properties also is contemplated, along with additions and improvements to gas plant facilities necessitated by the introduction of natural gas earlier this year.

Pennsylvania W.&P. Installs New Foster Wheeler Unit

THE world's largest anthracite coal-fired steam electric generator is now being manufactured by the Foster Wheeler Corporation at its Carteret, New Jersey, and Dansville, New York, plants and will be erected at the Holtwood, Pennsylvania, hydroelectric and steam generating plant of the Pennsylvania Water & Power Company, according to a joint announcement made recently by the companies. The installation is a part of the \$25,000,000 expansion program announced by the company several months ago.

(Continued on Page 30)

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Bituminous coal or oil are the fuels used in the vast majority of the nation's steam generating plants with a comparative few using anthracite for their boilers. Penn Water's operation is unique. It operates both hydro and steam plants on the Susquehanna river. Over the years this stream has brought millions of tons of coal, in the form of tiny particles down stream. Pennsylvania Water & Power Company "mines" this coal from the river bed behind the dams for use under the boilers in the steam plant.

The new Foster Wheeler unit comprises a "furnace" which, when erected, will stand 100 feet high, or about the height of a ten-story building. Its interior will contain some 96,000 cubic feet, or sufficient to contain over four normal-size homes. Into it, each hour, will go 46.6 tons of the "river coal" or a total of 1,118 each day.

The Pennsylvania Water & Power Company sells power at wholesale to four retail distribution companies in the southeastern Pennsylvania and Maryland area and to the Pennsylvania Railroad.

A-C Bulletin for Maintenance Engineers and Servicemen

THE proposed AIEE guide for the use of openly ventilated dry-type transformers with Class B insulation is contained in a new eight-page bulletin released by Allis-Chalmers Manufacturing Company. The guide gives general recommendations on installation, inspection, storage, maintenance, and operation. It includes distribution and power dry-type transformers in ratings above 50 kva and above 600 volts, cooled by natural draft or forced draft.

Copies of bulletin 61X7088B are available upon request from Allis-Chalmers Manufacturing Company, 965 South 70th street, Milwaukee, Wisconsin.

Folder Issued by Charles T. Main, Inc.

CHARLES T. MAIN, INC., has issued a folder describing their organization and the services which they render. Several illustrations of projects designed by the firm are included. Copies of the folder may be obtained without charge from Charles T. Main, Inc., Boston, Massachusetts.

BCR "Aids to Industry"

A NEW series of publications has been initiated by Bituminous Coal Research, Inc., to assist coal users in getting maximum satisfaction from the use of coal, and to help coal companies expand their markets. This series of publications will be known as "BCR Aids to Industry." The first publication in this new series is BCR Aid to Industry 500-300, entitled, *Application of Overfire Jets to Abate Smoke from Stationary Plants.* This booklet is a revision of BCR's *Technical Report VII.*

The numbering system devised for this series is for the purpose of bringing together related subjects, regardless of the order of their publication. The list price is 50 cents per copy. Requests should be sent to Bituminous Coal Research, Inc., 2609 First National Bank building, Pittsburgh 22, Pennsylvania.

Use-Purchase Plan for R-R Punched-Card Machines

"EVERYTHING TO GAIN . . . NOTHING TO LOSE" is the title of a new 6-page illustrated folder describing Remington Rand's "Use-Purchase Plan" for Punched-Card Accounting Machines.

The purpose of the folder is to describe how companies can gain plus-benefits from use-purchase of Remington Rand Tabulating equipment through equity in the equipment, savings between monthly payments and monthly rentals, and price stabilization assuring fixed payments over a long period of months.

Copies of the bulletin (No. TM 757.1) will be sent on request by writing Remington Rand Inc., 315 Fourth avenue, New York 10, New York.

"Li'l Abner" Goes to Work For Public Utilities

CARTOONIST Al Capp, creator of *Li'l Abner*, *Daisy Mae*, *Sadie Hawkins*, and a host of comic characters, and the Marlin Industrial Division, Inc., of New Haven, Connecticut, suppliers of bulletin board services and educational employee displays for public utilities, have combined forces to produce and distribute a humorous series of *Li'l Abner* bulletin board posters for use by operating managers as a helpful supplement to their personnel training programs.

The *Li'l Abner* cartoons, measuring 17 in. x 23 in., in 4 colors, are designed to get across to employees, entertainingly but effectively, the desirability of preventing accidents, stopping waste, maintaining high standards of service to consumers, and cooperating fully with all safe-driving programs, improving personnel and public relations, and carrying out individual management's policies. A new cartoon is displayed weekly, along with a specific message for utility personnel directors.

The cartoons and employee messages may be subscribed to by themselves, with or without display frames, or in combination with an attractive black and chrome bulletin board, fitted with a felt-covered posting panel and removable blackboard for use by the company in displaying its own notices, etc.

G-E Bulletin

GENERAL ELECTRIC COMPANY has released bulletin GEA-5720, "Lightweight Rapid Transit," which describes its new equipment for "better transit performance." Copies may be obtained from General Electric Company, Schenectady 5, New York.

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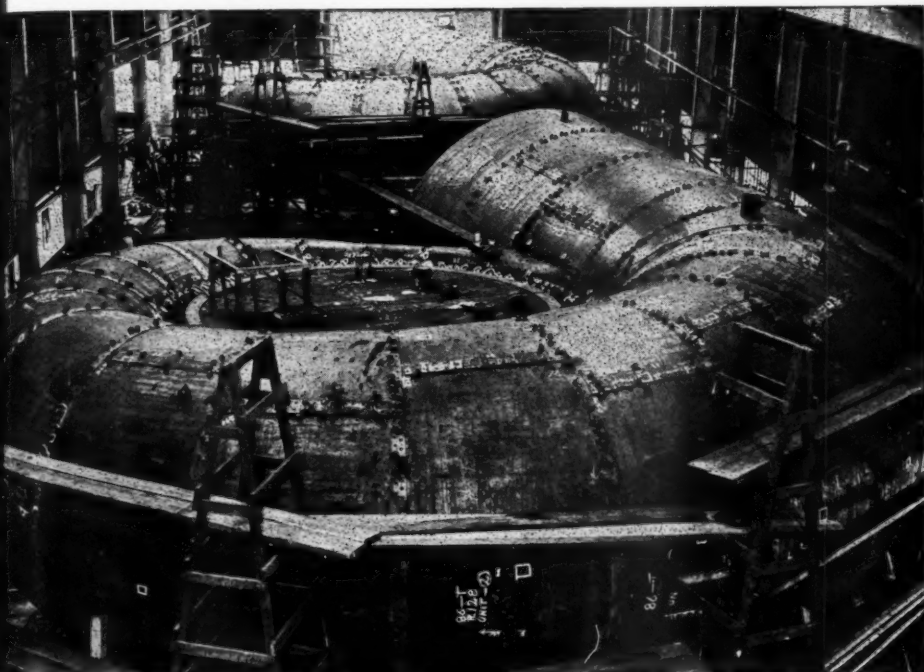
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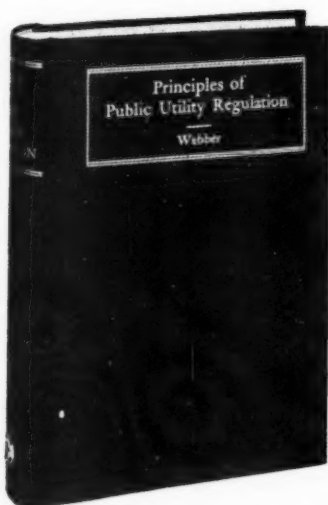
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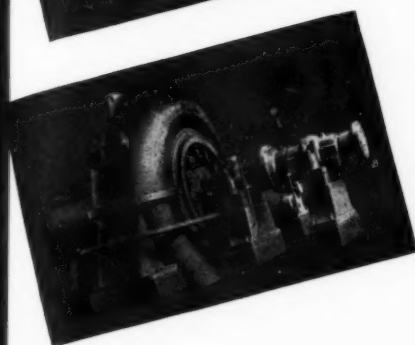
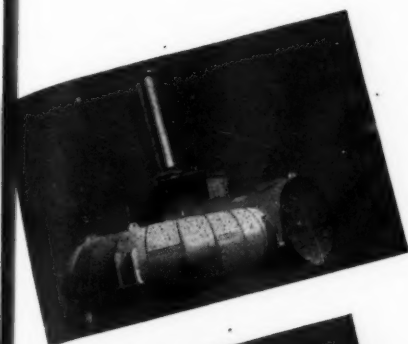
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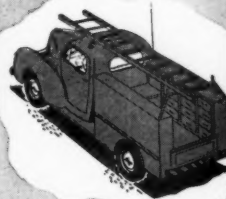
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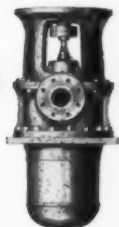
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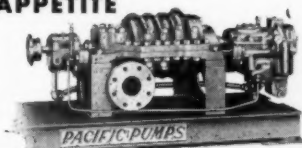
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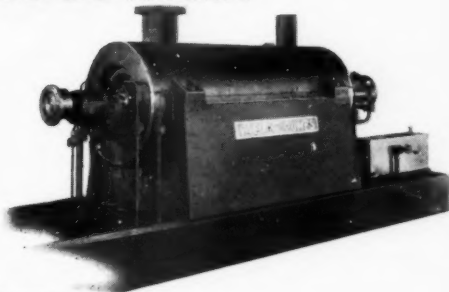
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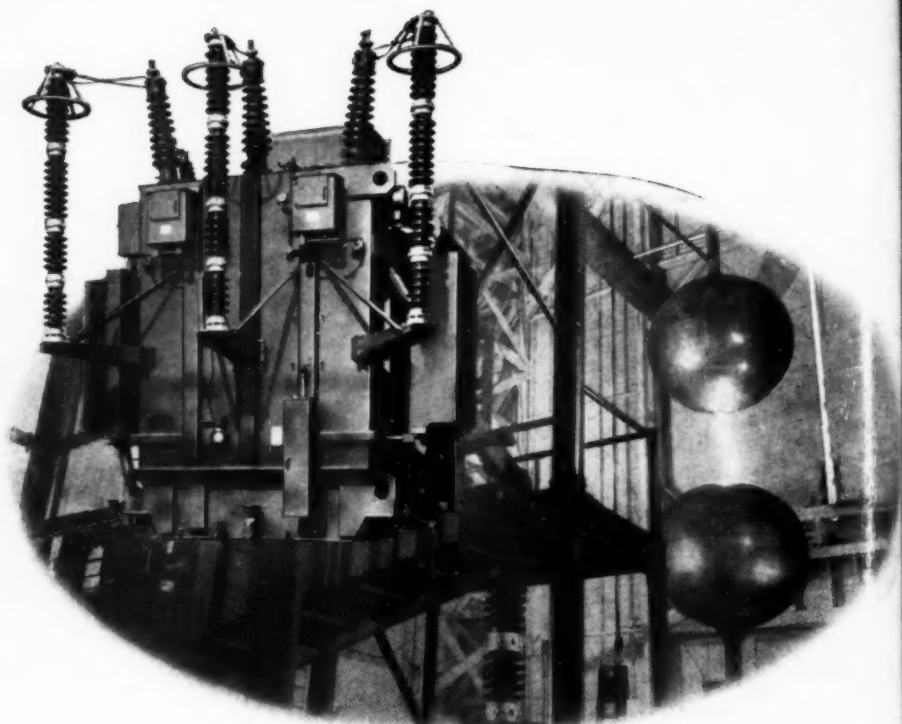
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